1900, 250 - 6th Avenue S.W., Calgary, Alberta, Canada T2P 3H7 Telex 03-821978 (403) 262-8808

July 31, 1984

INFORMATION BULLETIN RE ALBERTA COST OF SERVICE

The Alberta Cost of Service Information Bulletin for the month of June, 1984 is attached.

The Information Bulletin consists of:

1. Copies of any special Orders or Determinations issued by the Commission during the month with respect to Alberta Cost of Service, and notice of any Statements of Objection which have been received during the month; and

2. Alberta Cost of Service Determinations for the month.

In the case of gas intended to be removed from Alberta, the cost of service determined under Section 11(1), 15(3)(a) and 15(5)(b)(i) of the Natural Gas Pricing Agreement Act for each month is based on estimated figures for that month, adjusted to allow for differences between the estimated and actual figures for the previous month.

In the case of gas intended for consumption within Alberta, the amount estimated as cost of service under Sections 11(2)(a)(ii) and 15(3)(b)(i) of the Act were made under the Commission's general directive for the Alberta cost of service.

All determinations are on gross or higher heating value on a dry basis at 15°C and an absolute pressure of 101.325 kPa (kilopascal).

Yours very truly,

ALBERTA PETROLEUM MARKETING COMMISSION

D. L. Willis
Vice-Chairman

Attachment

INFORMATION BULLETIN
ALBERTA COST OF SERVICE DETERMINATION
PURSUANT TO THE NATURAL GAS PRICING AGREEMENT ACT
MONTH OF JUNE, 1984

Section 15(3)(a)	Cents Per Gigajoule (GJ)*
Alberta and Southern Gas Co. Ltd.	
- Category A	231.489
- Category B	44.299
- Category E	34.860
Canadian Montana Pipe Line Company	48.734
Canadian Montana Gas Company Limited	48.742
Consolidated Natural Gas Limited	47.614
ICG Resources Ltd.	44.737
Many Islands Pipe Line (Canada) Limited	
- Purchased Gas	35.054
- North Sibbald (Agent)	12.311
- Saddle Lake	22.709
- Esther	10.212
Pan-Alberta Gas Ltd.	
- Basic	34.040
Progas Limited	31.361
Simplot Chemical Company, Ltd.	140.503
Societe quebecoise d'initiatives petrolieres (SOQUIP)	37.817
Sulpetro Limited	29.032
TransCanada PipeLines Limited	
- Average(1)	68.699
- Category A	69.910
- Category B1B2	69.836
- Category B1B3	73.802
- Category B1D2	64.645
- Category D1B2	38.656
- Category D1B3	42.220
- Category D1D2	33.072
- Category E	50.974
Westcoast Transmission Company	
- Husky Oil Ltd.	26.364
- Petrogas Processing Ltd. et al	25.702
Westcoast Transmission Company (Alberta) Limited	
- North	35.242
- Triassic E	.474

Section 15(3)(b) 33.000

.../2

Notes

* Calculated on a gross and dry heating value basis at 101.325 kpa (kilopascal) and 15°C.

Notice

The price adjustment for gas is $0.47/GJ
The Alberta Border Price is $2.790 01/GJ

(1) For purposes of sales within Alberta

NOTICE

The Alberta Petroleum Marketing Commission hereby advises that, effective August 1, 1984, an amount estimated as the Alberta cost of service with respect to gas intended for consumption in Alberta under Sections 11(2)(a)(ii) and 15(3)(b)(i) of the Natural Gas Pricing Agreement Act is 30 ¢/GJ.

Alberta
PETROLEUM MARKETING COMMISSION
1900 250 6th Avenue S.W.
Calgary, Alberta Canada T2P 3H7
(403) 262-8808

DETERMINATION 84-21(SOQ)
ALBERTA COST OF SERVICE
NATURAL GAS PRICING AGREEMENT ACT

APPLICATION

By application dated November 1, 1983 and amended by letter dated March 7, 1984, Societe quebecoise d'initiatives petroliers (Soquip) requests approval from the Commission to file for an Alberta cost of service as structured in the application. The application, without Exhibits, is attached as Appendix "A".

DECISION

1. The application is granted with effect from November 1, 1983 except as indicated below.
2. Deferred development costs shall be amortized over the fourteen year life of Soquip's Alberta gas removal permit on a straight line basis.
3. The Pan-Alberta Resources Inc. start up fee shall be amortized on a straight line basis over the five year term of the Consultant Operator Agreement.

REASONS

The structure of the Alberta cost of service herein follows the practices and principles applied to other original buyers in similar circumstances.

Soquip states that its rate base, which consists primarily of intangible items, will be funded entirely with equity and that it does not intend to seek debt financing. The Commission accepts the deemed capital structure for which the company has applied of 50% equity and 50% debt as being reasonable in the circumstances. The Commission does not consider the capitalization for which Soquip has applied to be inconsistent with the risks inherent in the rate base assets.

The Commission considers Soquip's application for a 15% return on common equity to be reasonable. Soquip's application to have its deemed debt component costed at the current prime rate is acceptable. The Commission considers that the intangible nature of Soquip's rate base assets would preclude long term financing and the Commission has, in the past, approved the prime rate as the cost of deemed debt as an appropriate valuation of the cost of short term financing.

. . . /2.

The per gigajoule amortization rate applied for by Soquip assumes full amortization of deferred development costs over five years. In the past, the Commission has approved recovery of development costs over the life of the project and sees no reason to deviate from that principle in this case.

DATED this 30th day of July 1984 at Calgary, Alberta.

ALBERTA PETROLEUM MARKETING COMMISSION

D. L. Willis
Vice-Chairman

0554F APPENDIX "A"

SOCIETE QUEBECOISE D'INITIATIVES PETROLIERES

Application to the Alberta Petroleum Marketing Commission requesting approval to file and have determined an Alberta Cost of Service

November 1, 1983

Prepared on behalf of Soquip by Pan-Alberta Resources Inc.

(Contact: J. Lawton, Consultant, 234-6615)

INDEX

SOCIETE QUEBECOISE D'INITIATIVES PETROLIERES

Statement of Request:

Societe Quebecoise d'Initiatives Petrolieres ("Soquip") has contracted for the purchase of natural gas from producers within the Province of Alberta and for the sale, of such gas, to Gaz Inter-Cite Quebec Inc. ("GICQ"), at the point immediately east of the Saskatchewan-Alberta border at or near Empress, Alberta. The gas is ultimately distributed by GICQ within a predetermined territory of Quebec, Canada.

Soquip requests approval from the Commission to file and have determined monthly, a cost of service attributable to the acquisition, movement, metering, processing and marketing of this natural gas within Alberta.

The requested approvals should recognize a November 1, 1983 project commencement date.

The potential exists for a month in which little or possibly no gas is purchased. This could be the result of producer force majeure, plant turn-arounds, start-up problems, etc. This might create a situation where Soquip would be unable or unwilling to recover either a portion of, or all of, its Alberta Cost of Service. Unwilling in recognition of Soquip's desire to create a relatively stable per unit Alberta Cost of Service. Soquip would propose to maintain a per unit cost of somewhere between 40¢-50¢ per gigajoule. It is therefore requested that Soquip be allowed to defer the recovery of such costs and associated carrying costs (calculated at the prevailing prime bank rate) to the next month when sufficient gas purchases would be available to allow recovery. The timing and magnitude of any such deferrals will determine the method of recovery best to employ. Soquip will ensure sufficient lead time is available for both the Commission and Soquip to determine what is mutually acceptable.

SOCIETE QUEBECOISE D'INITIATIVES PETROLIERES

Reason for Request:

The Natural Gas Pricing Agreement Act provides for the regulation of natural gas prices. The components that comprise the purchase price (regulated field price) for original buyers of gas "intended to be removed from Alberta" are:

The Alberta Border Price

Less:

The Alberta Cost of Service (determined by the Commission)

Plus:

The Border Price Adjustment

Soquip has specific responsibilities as an original buyer, one of which is the requirement to apply monthly to the Commission for determination of an Alberta Cost of Service.

SOCIETE QUEBECOISE D'INITIATIVES PETROLIERES

Anticipated Cost of Service Components:

With the Commission's approval the components of Cost of Service will include:

Schedule	Component
1	Soquip's in-house operating costs
2	Pan-Alberta Resources Inc. consulting fees
3	NOVA, AN ALBERTA CORPORATION transportation charges
4	An amortization provision for deferred development costs
5	A return on rate base

The following schedules will indicate the proposed practice for determining the cost of service. We have supplied proforma calculations for 1984, subsequent years should not vary significantly.

If Soquip becomes aware of significant changes from that currently projected the Commission will be so informed.

As a contracted shipper on the Nova facilities any allocated fuel usage or measurement variance gas would represent, to Soquip, an in-Alberta sale to Nova at the regulated field price (excluding the Border Price Adjustment). As such, Soquip will report an Alberta Sales Adjustment component in it's cost of service recognizing the unrecovered cost of service associated with this sale. At this point Soquip has no means of determining the magnitude of this sale.

It should be noted that any accumulated cost deferrals will also be included to the extent required. At this point Soquip has no means of determing the magnitude of the cost deferrals.

SOCIETE QUEBECOISE D'INITIATIVES PETROLIERES

Projected Alberta Cost of Service
For the Year Ended December 31, 1984

Details	Schedule	
Operating Level:		
Annual Purchases (GJ) (1)		2,500,000
Cost of Service:		
In-house operating costs	1	$ 33,600
Pan-Alberta Resources Inc. - consulting fees	2	84,000
NOVA, AN ALBERTA CORPORATION - transportation charges	3	701,000
Amortization provision	4	62,500
Return on rate base	5	34,400
Total		$ 915,500
Per Unit Cost of Service ($/GJ)		.366

(1) 183.0 $10^3 m^3$ x 37.43 MJ/m^3 x 365 = 2,500,000 GJ

SOCIETE QUEBECOISE D'INITIATIVES PETROLIERES

In-House Operating Costs

The anticipated annual in-house operating costs are projected to be approximately $33,600 ($2,800/month). The methodology proposed to segregate cost between Soquip's other activities and it's original buyer activities will involve allocation of office rental costs, office supply costs, allocated employee benefit costs and salary costs based on actual employee time charged to the project. Time so charged will be costed and its percentage of the total company salary costs will become the allocation percentage to be applied against these common cost elements. Also, any direct project costs will be allocated on an as incurred basis (telephone, employee expenses etc. ...).

SOCIETE QUEBECOISE D'INITIATIVES PETROLIERES

Consulting Fees

Soquip has entered into a Consultant Operator Agreement with Pan-Alberta Resources Inc. ("PARI") dated 1983 08 01, under which PARI will provide consulting, operating and administrative services in connection with coordinating the ordering, transportation and delivery of Soquip's gas. This agreement calls for a monthly fee of $7,000. (These fees are to be adjusted each year by a factor equal to the percentage change in the Implicit Price Deflator for Gross National Expenditure, Published Quarterly in Statistics Canada Catalogue, 13-001, National Income and Expenditure Accounts, System of National Accounts.)

Schedule 3

SOCIETE QUEBECOISE D'INITIATIVES PETROLIERES

Transportation Charges

Soquip has made application to and received confirmation from NOVA, AN ALBERTA CORPORATION for the T-5 export service rate on all volumes of gas delivered to the Alberta/Saskatchewan border.

Forecast:

Assuming a 183.0 $10^3m^3/d$ flow and a $\$10.50/10^3m^3$ T-5 service rate the annual NOVA charge will be:

$$183.0\ 10^3m^3 \times \$10.50/10^3m^3 \times 365 = \$701{,}000/\text{year}$$

SOCIETE QUEBECOISE D'INITIATIVES PETROLIERES

Deferred Development Costs
Amortization Provision

Development costs are projected to amount to $306,000.00 (see Schedule 4(a)).

Soquip proposes to amortize such costs employing a per gigajoule of gas purchased charge of 2.5¢. This figure was derived assuming an annual take of 2,500,000 GJ (183.0 10^3m^3 per day @ 37.43 MJ/m^3). Takes at this level will fully amortize the costs within 5 years of the project start-up. The variable nature of natural gas marketing activities will regulate the level of amortization provision recovered each month.

The intent of the per unit recovery charge is to recognize that volumes may vary significantly from month to month. A per unit charge will ensure that the cost of service component of the regulated field price will be related to the volumes of gas actually purchased in that month and not be unduly excessive, which might be the case with a straight-line approach.

The 2.5¢ charge should, as mentioned, provide for recovery within 5 years. This short amortization period can be justified by recognizing that the producer mix will not vary over the project life thus ensuring those producers receiving the benefit of the Soquip market also pay the costs. As the costs under consideration are relatively immaterial employing any permit or contract life would be unwarranted.

Forecast:

Assuming a 183.0 $10^3m^3/d$ flow the anticipated 1984 amortization provision would be:

$$183.0\ 10^3m^3 \times 37.43\ MJ/m^3 \times 365 = 2{,}500{,}000\ GJ \times 2.5¢/GJ$$
$$= \$62{,}500/year$$

SOCIETE QUEBECOISE D'INITIATIVES PETROLIERES

Estimated Development Costs

Details	$'s	Note
Pan-Alberta Resources Inc. start-up fee	$ 10,000	(1)
In-House costs	296,000	(2)
	$306,000	

(1) The Consultant Operator Agreement dated 1983.08.01 required Soquip, upon execution of the agreement, to pay $10,000 as a start-up fee.

(2) This represents actual expenditures. Soquip will provide the Commission with a detailed itemized listing of costs incurred under separate cover.

SOCIETE QUEBECOISE D'INITIATIVES PETROLIERES

Return on Rate Base

(1) Rate Base

Soquip proposes to include the following components in its rate base:

(a) Inventory:

Inventories represent temporary investments in natural gas which can be either positive or negative in value. The Alberta Border Price as it exists from time to time is used to determine the value of the inventory investment.

Due to the unpredictable nature of inventories Soquip has not attempted to include such amounts in its pro-forma rate base.

(b) Deferred Development Costs:

Soquip, by this application, has requested approval from the Commission as to the magnitude of the costs and the method to employ to amortize such costs.

Soquip proposes to calculate its return on the above rate base utilizing the prior month end actual rate base balance. For this application Soquip has utilized a mid-year balance for presentation purposes only.

(2) Capitalization

Soquip proposes to utilize a deemed capital structure of 50% debt and 50% equity. This structure recognizes the Commission's preference for some level of debt financing.

(3) Rate of Return

Soquip submits that a rate of return should provide for the recovery of a company's debt costs and provide for a reasonable level of return on equity employed.

The availability of debt to Soquip is by way of prime based bank loans. Soquip proposes to utilize an assumed 11% prime rate in its forecasted rate of return calculation.

Soquip also makes application for a 15% return on equity. This percentage recognizes the recent return on equity trends and is considered by Soquip, to be adequate.

Based on the foregoing cost of debt and required return on equity and a debt/equity ratio of 50:50, Soquip's forecast rate of return is calculated to be 13.0% (see Schedule 5.3).

In order to recognize the variable nature of debt financing, Soquip would propose to recalculate its requested rate of return each month using the actual prime rate in effect.

(4) Return

Soquip's proforma return on rate base for 1984 is projected to be $34,400.00 or 1.4¢ per GJ of gas purchased. (see Schedule 5.4)

SOCIETE QUEBECOISE D'INITIATIVES PETROLIERES

Proforma Rate Base Calculations

($)

Details	Schedule	For the Years Ended December 31 1983	1984
Rate Base Assets		1983	1984
Deferred Development costs (net book value)	5.2	295,500	233,000
Inventory		N/A	N/A
Ending Balance		295,500	233,000
Opening Balance			295,500
Sub-total			528,500
Average mid-year investment/Rate Base			264,250

Schedule 5.2

SOCIETE QUEBECOISE D'INITIATIVES PETROLIERES

Forecast Deferred Development Costs

As At December 31

($)

Details	1983	1984
Start-up Costs:		
Original cost	306,000	306,000
Accumulated amortization (1)	10,500	73,000
Net book value	295,500	233,000

Notes:

(1) - Amortized at 2.5¢/GJ of gas purchased assuming 2,500,000 GJ/year.

- 1983 recognizes purchases for only November and December.

Schedule 5.3

SOCIETE QUEBECOISE D'INITIATIVES PETROLIERES

Proforma Rate of Return

Line	Details	%
	Capitalization	
1	Debt	50.0
2	Equity	50.0
		100.0
	Cost of Capital	
3	Debt	11.0
4	Equity	15.0
	Composite Cost	
5	Debt (Line 1 x Line 3)	5.5
6	Equity (Line 2 x Line 4)	7.5
	Rate of Return	13.0

Schedule 5.4

SOCIETE QUEBECOISE D'INITIATIVES PETROLIERES

Proforma Return on Rate Base

Details	Schedule	For the Year Ended December 31, 1984	
Proforma Rate Base ($'s)	5.1	264,250	
Proforma Rate of Return on Rate Base (%)	5.3	13.0	
Proforma Return on Rate Base ($'s)		34,400	
Return on Rate Base		34,400	
Less: Debt interest costs		14,500	(1)
Return on Equity		19,900	
Purchases (GJ)		2,500,000	(2)
Cost per Unit Purchased (¢/GJ)			
Debt		.6	
Equity		.8	
Return on Rate Base		1.4	

(1) Rate Base $264,250 x 50% (debt) x 11.0% (prime)

(2) 183.0 $10^3 m^3/d$ x 37.43 MJ/m^3 x 365 = 2,500,000 GJ

Effect on Third Parties:

The major beneficiaries of maintaining marketing activities for natural gas are the producers and the Province of Alberta.

Effect on Soquip:

Approval of this application would enable Soquip to meet its responsibilities as an original buyer for gas "intended to be removed from Alberta" and provide for the vehicle to recover costs attributable to its original buyer activities within Alberta.

Respectfully submitted

SOCIETE QUEBECOISE D'INITIATIVES PETROLIERES

by [signature]

Michel Gourdeau
Manager, Finance, Planning and Administration

Canada Life Tower
736 - 6th Avenue S.W.
Suite 1300
Calgary, Alberta, Canada
T2P 3T7

Tel.: (403) 263-6777

1984 03 07

SOQUIP

Alberta Petroleum Marketing Commission
Attention: Mr. V. M. Thomas
General Manager, Natural Gas
1900, 250 - 6th Avenue S.W.
Calgary, Alberta
T2P 3H7

Dear Sir:

Re: Alberta Cost of Service
Application dated November 1, 1983

In response to your letter of January 31, 1984 please note the following:

Item 1: A copy of the Consultant Operator Agreement ("COA") between Soquip and Pan-Alberta Resources Inc. is attached. (Exhibit I)

Item 2: (a) The monthly fee of $7,000 per month required under the above mentioned Agreement commences with the term of the COA (November 1, 1983 to October 31, 1988) and is not dependent upon the purchase of gas.

(b) Soquip proposes to recover monthly costs incurred prior to the purchase of gas, within the first month of gas purchases. These costs would include monthly COA fees, in-house costs plus associated carrying costs.

Item 3: Attached is a listing of the project development costs incurred prior to November 1, 1983. (Exhibit II)

Item 4: Soquip wishes to inform the Commission that it has decided to remove from the Application the request for a defined per unit Alberta Cost of Service "ceiling" of 40¢-50¢ per gigajoule.

With regards to cost deferrals during months of no or low throughput it would be Soquip's intent to administer such deferrals in the following manner:

- all costs pertaining to the cost of service period in question would be reported as required. Soquip would enter the following adjustments on Line 18 of the monthly cost of service submission:

(i) if the current month costs divided by the current month purchases results in a per unit Alberta Cost of Service in excess of the prevailing Alberta Border Price ("ABP"), then a credit adjustment sufficient to eliminate such excess will be processed. The credit adjustment amount will be aggregated with prior month cost deferrals, if any, and will be recovered together with the associated carrying costs, in succeeding month Alberta Cost of Service submissions.

(ii) If the current month costs divided by the current month purchases results in a per unit Alberta Cost of Service which is less than the prevailing ABP, then prior month deferrals will be added to the current month costs to the extent that they do not cause the resulting unit Alberta Cost of Service to exceed the ABP.

Soquip proposes to deem that any deferrals would be debt funded with the carrying costs calculated at the prime rate in effect from time to time.

Deferrals would be outstanding only until sufficient purchases were available to satisfy the ABP criteria at which time they would be fully recovered.

Soquip expects that the cost deferral concept would be used mostly at the commencement of the project.

Item 5 and 6:

Soquip did not undertake a formal assessment as to an appropriate capitalization or rate of return for its activities. Due to the anticipated levels of rate base investment, Soquip did not believe such studies were justified from a cost point of view. The Company's request was formulated solely with regard to capitalizations and rates of return currently allowed by the Commission.

.../3

Although the deeming of capitalization will understate Soquip's equity investment (the Company's rate base will be funded entirely with equity), Soquip is prepared to accept this approach at this time, on the basis that it is an established concept amongst other buyers of natural gas in the Province. Soquip has not sought nor does it intend to seek debt financing for rate base assets. However, Soquip believes that a deemed debt component of 50% calculated at a cost of the prime rate, is reasonably representative of what it might be able to secure.

Soquip submits that the rate of return on equity of 15% is in line with previously authorized returns for other buyers.

Item 7: Soquip has no significant ongoing working capital requirements as costs are essentially recovered as incurred.

The recovery of carrying charges on deferred costs is in lieu of a working capital allowance but only to the extent that such deferrals exist.

Item 8: The gas inventory valued for rate base purposes arises from monthly variations or imbalances between the amounts of gas that are received from Producers and delivered to Customers. These variations are primarily caused by differences between nominations places and actual receipts or deliveries. Soquip will not be allocated "line pack" gas within the NOVA system.

If we may be of further assistance in this matter please contact us.

Yours truly,

SOCIETE QUEBECOISE D'INITIATIVES
PETROLIERES

Henri Lefebvre
Controller
For Michel Gourdeau
Director, Administration,
Finance and Planning

JL/llt
0608F

Alberta PETROLEUM MARKETING COMMISSION

1900, 250 - 6th Avenue S.W., Calgary, Alberta, Canada T2P 3H7

Telex 03-821978 (403) 262-8808

August 31, 1984

INFORMATION BULLETIN RE ALBERTA COST OF SERVICE

The Alberta Cost of Service Information Bulletin for the month of July, 1984 is attached.

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1. Copies of any special Orders or Determinations issued by the Commission during the month with respect to Alberta Cost of Service, and notice of any Statements of Objection which have been received during the month; and

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In the case of gas intended for consumption within Alberta, the amount estimated as cost of service under Sections 11(2)(a)(ii) and 15(3)(b)(i) of the Act were made under the Commission's general directive for the Alberta cost of service.

All determinations are on gross or higher heating value on a dry basis at 15°C and an absolute pressure of 101.325 kPa (kilopascal).

Yours very truly,

ALBERTA PETROLEUM MARKETING COMMISSION

D. L. Willis
Vice-Chairman

Attachment

INFORMATION BULLETIN
ALBERTA COST OF SERVICE DETERMINATION
PURSUANT TO THE NATURAL GAS PRICING AGREEMENT ACT
MONTH OF JULY, 1984

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- Purchased Gas	34.483
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- Saddle Lake	34.852
- Esther	8.899
Pan-Alberta Gas Ltd.	
- Basic	40.964
Progas Limited	31.998
Simplot Chemical Company, Ltd.	43.011
Societe quebecoise d'initiatives petrolieres (SOQUIP)	31.581
Sulpetro Limited	39.553
TransCanada PipeLines Limited	
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- Category D1B2	35.073
- Category D1B3	41.328
- Category D1D2	29.640
- Category E	48.494
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- Husky Oil Ltd.	36.985
- Petrogas Processing Ltd. et al	41.592
Westcoast Transmission Company (Alberta) Limited	
- North	26.228
- Triassic E	.474
Section 15(3)(b)	33.000

.../2

Notes

* Calculated on a gross and dry heating value basis at 101.325 kpa (kilopascal) and 15^{o}C.

Notice

The price adjustment for gas is $0.45/GJ
The Alberta Border Price is $2.790 01/GJ

(1) For purposes of sales within Alberta

NOTICE

The Alberta Petroleum Marketing Commission hereby advises that, effective August 1, 1984, an amount estimated as the Alberta cost of service with respect to gas intended for consumption in Alberta under Sections 11(2)(a)(ii) and 15(3)(b)(i) of the Natural Gas Pricing Agreement Act is 30 ¢/GJ.

Alberta
PETROLEUM MARKETING COMMISSION
1900 250 - 6th Avenue S.W.
Calgary, Alberta Canada T2P 3H7
(403) 262-8808

DETERMINATION 84-22 (PRO)
ALBERTA COST OF SERVICE
NATURAL GAS PRICING AGREEMENT ACT

APPLICATION

In response to the Commission's request of September 30, 1983 to provide updated rate of return information, ProGas Limited (ProGas), by application dated January 12, 1984 as amended March 23, 1984, requests approval to retain the existing rate of return on rate base and, in addition, to make certain amendments to its rate base. The application (except exhibits) is shown in the attached Appendix "A".

DECISION

1. With respect to the ProGas II Project:

   (a) Project costs already incurred and recovered through Alberta cost of service during the period from July 1, 1981 to June 30, 1984 shall be refunded to Alberta cost of service in equal monthly amounts over the period from July 1, 1984 to December 31, 1985.

   (b) Additional costs incurred shall be excluded from Alberta cost of service for the period July 1, 1984 to December 31, 1985.

   (c) A deferral account may be established consisting of the total costs under (a) and (b) above plus carrying costs accrued thereon based on the rate of return on rate base as authorized by the Commission from time to time.

   (d) ProGas may submit an application for recovery of the deferred project costs under (c) above upon commencement of gas deliveries under the ProGas II Project or upon other resolution of the project.

2. With respect to the computer hardware and software costs:

   (a) The computer hardware lease payments and the actual software cost incurred during the period of November 1, 1983 to June 30, 1984 are allowed to be expensed and recovered in Alberta cost of service over a four month period commencing July, 1984.

.../2

(b) The computer hardware lease payments and the actual software cost incurred in July, 1984 and thereafter are allowed to be recovered in Alberta cost of service as incurred.

3. The unamortized balance of deferred general and administrative costs and deferred return on rate base relating to the ProGas I Project shall be removed from the rate base and recovered in Alberta cost of service in equal monthly amounts over a four month period commencing July, 1984.

4. The rate of return on rate base shall be 13.22% effective July 1, 1984.

REASONS

ProGas proposed to credit Alberta cost of service with ProGas II Project costs already recovered and to exclude additional costs incurred until January 1, 1986, the anticipated "on-stream" date of ProGas II gas exports. The Commission agrees that it would be more equitable to the ProGas I producers to defer the ProGas II Project costs to the date of commencement of deliveries under the project at which time such costs will be spread over total deliveries from both the ProGas I and ProGas II producers. However, due to the uncertainties surrounding the ProGas II Project under which gas deliveries are not expected to commence until January 1, 1986, the Commission considers it more appropriate for ProGas to submit an application for recovery of the project costs upon commencement of gas deliveries or upon other resolution of the Project.

ProGas applied for the computer hardware and software costs to be included in rate base and amortized on a straight-line basis over a five year period. However, in view of the relatively minor amount of the computer hardware lease payments and the software cost, the Commission considers it more appropriate that such costs be recovered as incurred.

The Commission agrees with ProGas that the relatively small balance remaining of the deferred general and administrative expenses and deferred return on rate base associated with the ProGas I Project should be removed from the rate base. ProGas applied for the unamortized balance of the costs to be removed from the rate base and recovered in cost of service in one month. However, to reduce the impact on Alberta cost of service, ProGas shall recover the costs over a four month period.

.../3

ProGas provided information with respect to the capital structure and the cost rates but has not requested any changes from those previously approved by the Commission. The Commission accepts the capital structure as previously approved but has reduced the cost rate on short term debt from 18.50% to 13.00% to reflect lower interest rates than previously in effect. With respect to the return on common equity, the Commission considers a rate of return of 16% to be appropriate having regard to the yield on low-risk long term government bonds and the business and financial risks of the company. The composite rate of return on rate base of 13.22% is derived as follows:

Capital Structure	Ratio (%)	Cost Rate (%)	Cost Component (%)
Debt:			
Short term bank loan	6.266	13.00	.81
Long term debt	40.403	15.00	6.06
Equity:			
Preferred shares	28.120	8.25	2.32
Common equity	25.211	16.00	4.03
	100.000		13.22

DATED THIS 17th day of August, 1984 at Calgary, Alberta.

M. R. Pullam

M. R. Pullam
Acting Secretary

PROVINCE OF ALBERTA
ALBERTA PETROLEUM MARKETING COMMISSION

IN THE MATTER OF the Natural Gas Pricing Agreement Act being Chapter 38 of the Revised Statutes of Alberta 1975, as amended, and the regulations pursuant thereto, and

IN THE MATTER OF an application by ProGas Limited, for amendments to its rate base in respect of costs incurred for the development of a new gas export project and for the purchase of computer hardware and software and the allowed return thereon for Alberta cost of service purposes and in respect of certain deferred operating costs and deferred return on rate base.

A. APPLICATION

ProGas Limited (hereinafter called "ProGas") requests the following approvals from the Alberta Petroleum Marketing Commission (hereinafter called "the Commission"):

1) the inclusion in its rate base, effective January 1, 1986, of costs incurred to that date, in respect of its proposed new export sales of natural gas ("ProGas II Project"), together with an allowed return thereon for Alberta cost of service purposes. Such proposed sales are authorized under ProGas' export licences, GL-80 and GL-81, received from the National Energy Board ("NEB").

2) the removal from its rate base, effective December 1, 1984, of certain deferred general and administrative expenses and deferred return on rate base associated with the first ProGas gas export project ("ProGas I Project").

3) the inclusion in its rate base, effective November 1, 1983, of costs incurred and to be incurred, in respect of the purchase of computer hardware and software together with an allowed return thereon for Alberta cost of service purposes.

B. PRESENT PRACTICE

ProGas is involved in the purchasing and marketing of natural gas and through the normal course of its business it actively seeks new markets for Alberta gas.

1) In order to minimize exposure to take-or-pay problems, ProGas historically has approached its marketing activities on a project-by-project basis. The development of new markets provides producers with additional sources of revenue and contributes to the overall growth of the industry. This aspect of ProGas' operations is of increasing importance in light of the current surplus of gas in Alberta.

   The Commission's Determination 81-06 (PRO), dated October 9, 1981, allowed ProGas an annual return of 14.00% on its rate base as defined by the Commission. Included in the rate base are the unamortized costs incurred in obtaining Alberta removal permits, NEB export licence GL-56, and requisite import authorizations from regulatory authorities in the United States of America (the ProGas I Project). Accordingly, ProGas is presently earning a return on this investment and is amortizing same in its monthly Alberta cost of service.

In 1981, ProGas commenced the negotiation of additional gas export sales contracts for the ProGas II Project. Total costs incurred in this project to December 31, 1983 are $1,338,308. These costs (both direct and indirect) relate to the following:

a) negotiating and contracting new gas markets;
b) contracting gas supplies with Alberta producers;
c) negotiating arrangements for the gathering and transportation of gas to be sold;
d) preparing and processing applications for the necessary regulatory approvals.

During the period July 1, 1981 to December 31, 1983 ProGas expensed and recovered the above-noted costs in its Alberta cost of service. ProGas expects additional costs to be

incurred for the ProGas II Project before all of the requisite authorizations are obtained. These additional costs are expected to be in the order of $650,000 from January 1, 1984 to December 31, 1985.

2) Since July 1, 1981, ProGas has included in its rate base certain deferred general and administrative expenses and deferred return on rate base. This procedure was approved by the Commission in 81-06 (PRO) in order to reduce the impact of a high cost of service on the initial producer-suppliers in the early months of sales under the ProGas I Project. During that period, there was a gradual buildup of deliveries from contracted supply and the shortfall was filled through purchases of gas from TransCanada PipeLines Limited (TransCanada) at the Alberta border. The resulting cost of service if charged against relatively low deliveries from producers would have resulted in an unreasonbly high unit cost of service to these particular ProGas I Project producers.

C. PROPOSED PRACTICE

1) Since funds are being committed in expectation of developing new markets for the benefit of Alberta gas producers, ProGas submits that such expenditures and an associated return thereon should be included in its rate base commencing January 1, 1986. This would be consistent with the position taken by the Commission for the ProGas I Project.

This concept is more equitable to the 41 ProGas I Project producers than the present practice and spreads the development costs of the ProGas II Project over the 208 ProGas II producers commencing January 1, 1986. Thirty-four of the ProGas I producers are also in the ProGas II Project. After January 1, 1986, the combined volume of deliveries from the ProGas I and II Projects will cushion the impact of the inclusion of the unamortized ProGas II development costs in the rate base. In the meantime, during 1984 and 1985, the ProGas II Project costs already incurred during

1981 - 1983 would be reversed through the cost of service thus reducing the unit cost of service to the ProGas I Project producers.

The concept also enables ProGas to recover and earn a fair return on its investment which was made essentially for the benefit of its many producer-suppliers.

Based on total projected ProGas II Project costs of approximately $2 million to December 31, 1985, the associated return at 14.00% would amount to approximately $300,000. These expenditures, including the return associated therewith to December 31, 1985, would be included in rate base as of January 1, 1986, the anticipated date of commencement of sales under the ProGas II Project. The expenditures then would be amortized on a straight line basis over the twelve years of the NEB export permit.

In the unlikely event that the ProGas II Project were unsuccessful, the proposed procedure does not alter significantly the existing practice wherein ProGas I Project producers are bearing the costs and risks associated with market development.

2) It is proposed that the remaining unamortized balance of deferred general and administrative costs and deferred return on rate base ($114,120) be removed from the rate base effective December 1, 1983 and be charged to cost of service in that month. The impact of this procedure on the December cost of service would be 2.2 cents/GJ. The continuing impact on cost of service from retaining these deferred items in the rate base is only 0.041 cents/GJ and no longer warrants the separate administration and accounting of these costs.

3) During the last quarter of 1983, new computer hardware has been installed in ProGas' offices for data processing. Development of the necessary application software is nearing completion. It is proposed that the capital lease of the hardware and the cost of the application software be included in the rate base effective November 1,

1983. Amortization of these items on a five-year straight-line basis would reflect the economic benefit to be derived from their use.

WHEREFORE, ProGas respectfully requests that the Commission grant expeditious approval of this application dated at the City of Calgary, in the Province of Alberta, this 12th day of January 1984.

Respectfully submitted,

ProGas Limited

By

R.L.Harrop
Vice President

ProGas

ProGas Limited
1620 SunLife Plaza
144 Fourth Avenue SW
Calgary Alberta
Canada T2P 3N4
Telephone: (403) 265-9980
Telecopier: (403) 263-2587
Telex: 038-21291

Richard L. Harrop
Vice President

March 23, 1984

Mr. V.M. Thomas
General Manager, Natural Gas
Alberta Petroleum Marketing Commission
1900, 250 Sixth Avenue S.W.
Calgary, Alberta
T2P 3H7

Dear Mr. Thomas:

Re: Docket 84-03

Attached is ProGas' response to your February 27, 1984 letter requesting further information pertaining to our January 12 application for certain adjustments to our rate base.

Yours truly,

Richard L. Harrop

RLH/nb
Enclosure

Response to A.P.M.C. Deficiency Letter

dated February 27, 1984

(re: Docket No. 84-03)

1. ProGas Limited have long term Debentures and short-term Bank Loan outstanding as of December 31, 1983. The supporting information required by the Commission regarding these debt components is as follows:

   a) Date of Issuance of Debentures: April 14, 1982
      Date of Maturity: April 14, 1997

   b) Principal amount of the issue: $994,628.00

   c) The nominal interest rate is 15% payable each January 1 and July 1.

   d) The net proceeds of the Debentures was $994,628.00. ProGas Limited will prepay annually 1/15th of the original principal sum of each Debenture. Prepayments of $66,000.00 commenced July 1, 1983. There was no debt discount, premium and expense associated with the Debenture at time of issue. Attached is a copy of one of the Debentures issued.

   e) As at December 31, 1983, ProGas Limited had the following unsecured lines of credit available with the Canadian Imperial Bank of Commerce:

      $500,000 Operating Loans
      $300,000 Capital Loans (Revolving)

      Interest is applied on both loans at the Bank's Prime Rate, payable monthly.

      Capital loans will be repayable in equal annual, semi-annual, quarterly or monthly installments, such that the loan will be retired in full within seven years from inception, and repayment need not commence until up to two years from inception.

      Capital Loans may be repaid and redrawn without notice or penalty within the context of the foregoing repayment schedule.

   f) At present ProGas Limited does not propose any changes to debt.

Response to A.P.M.C. Deficiency Letter

(re: Docket No. 84-03)

2. The supporting information required by the Commission regarding the preferred share capital outstanding at December 31, 1983 is as follows:

   a) Date of Issuance: April 14, 1982

   b) The dividend rate is 8.25% payable semi-annually each January 1 and July 1. Dividend payments commenced July 1, 1982, on the issue price of $1.00 per share, on the outstanding number of shares.

   c) The original number of shares issued was 749,340 shares at a subscription price of $1.00 per share.

   d) The net proceeds of the Preferred Shares was $749,340.00. There was no capital stock expense associated with the Preferred Shares at time of issue. ProGas Limited will redeem annually 1/15th the number of Preferred Shares issued to each shareholder. Redemption payments of $50,000.00 commenced July 1, 1983. Attached is a copy of a Shareholder's Agreement.

   e) At present ProGas Limited does not propose any changes to preferred share capital.

Response to A.P.M.C. Deficiency Letter

(re: Docket No. 84-03)

3. The following is a schedule of the components of ProGas' capital structure and their costs, as at December 31, 1983, and the particular components of the rate base that they finance.

ESTIMATED RATE BASE AT DECEMBER 31, 1983

Components of Rate Base		Financed By:	
Initial Development Costs	$2,025,118	Outstanding Debentures (Debt) @ 15%	$ 928,319
		Outstanding Preferred Shares @ 8.25%	699,384
		Common Equity @ 17% (Common Shares)	397,415
	$2,025,118		$2,025,118
Working Capital	$ 200,000	Common Equity @ 17% (Common Shares)	$ 200,000
	$ 200,000		$ 200,000
Furniture & Fixtures and Leasehold Improvements	$ 331,666	Common Equity (Common Shares) @ 17%	$ 77,669
		Common Equity (Retained Equity)	$ 253,997
	$ 331,666		$ 331,666
Line Pack	$ 400,000	Bank Loan - 11%	$ 330,003
		Common Equity @ 17% (Retained Earnings)	69,997
	$ 400,000		$ 400,000
Computer Software and Hardware	$ 259,133	Computer Hardware	
		Capital Lease - (Debt) @ 14%	$ 168,051
		Common Equity @ 17% (Retained Earnings)	91,082
	$ 259,133		$ 259,133
	$3,215,917		$3,215,917

4. Please find attached a copy of the computer hardware capital lease, and a copy of a letter from Peat, Marwick, Mitchell & Co. stating that "from an accounting viewpoint, under present conditions, this lease should be accounted for as a capital lease...".

WANG CANADA LIMITED — Master Lease Agreement

CUSTOMER:

PROGAS LIMITED
Suite 1620
144 4th Avenue S.W.
Calgary Alberta
T2P 3N4

MASTER LEASE AGREEMENT NO. C3J21

Wang Canada Limited (hereinafter referred to as "Wang") and the Customer agree that the following terms and conditions shall apply to any Lease Ordering Supplement or Customer order (either hereinafter referred to as a "Supplement") incorporating this Agreement for the lease and licensing of hardware and software (hereinafter collectively referred to as "Products") that is signed by the Customer and accepted by Wang. Wang will: (1) lease hardware (being units of equipment manufactured by Wang Laboratories Inc. or its manufacturing subsidiaries and hereinafter referred to as "Hardware"); and, (2) license programs and other related materials ("Software") to the Customer.

1. TERM OF MASTER LEASE AGREEMENT

This Master Lease Agreement is effective from the date on which it is executed by Wang and shall continue in full force and effect until all the obligations hereunder are fulfilled, unless sooner terminated as provided herein.

2. LEASE AGREEMENT PERIOD

(a) The Lease Agreement Period (hereinafter referred to as "Lease Period") shall commence on the Lease Commencement Date as defined below and shall continue for the term indicated on the appropriate Supplement. The delivery date set forth in the Supplement represents Wang's best estimate and is subject to delays in production and shipment, for which Wang shall not be held liable.

(b) At the end of the initial Lease Period the Customer may extend the Lease Period at prices, terms and conditions then in effect or purchase the Hardware as specified in Section 20.

3. PAYMENT

(a) The monthly Lease payments to be made hereunder shall be paid to Wang at the address indicated herein, or such other place as Wang may hereafter direct, in Canadian funds.

(b) The total monthly Lease payment set forth in a Supplement shall be payable in advance for each month of the term on the first day of such month.

(c) All other charges due hereunder are payable as specified in the invoice.

(d) The amount of all Lease payments remaining unpaid more than ten (10) days after the due date at Wang's option may bear interest without any demand being necessary at the rate of eighteen percent (18%) per annum (1.5% per month) from such due date.

HARDWARE

The following terms and conditions shall apply to Hardware leased to the Customer under this Agreement and listed in a Supplement.

4. SITE PREPARATION

(a) Prior to the installation of the Hardware, the Customer sha[ll] prepare the installation site in accordance with Wang['s] Customer Site Planning Guide.

(b) Throughout the term of this Agreement the Customer sha[ll] maintain site conditions within the specifications containe[d] in Wang's most current Customer Site Planning Guide o[r] Wang.

5. DELIVERY AND INSTALLATION

(a) Delivery of all Products will be made F.O.B. Don Mills Ontario with the Customer responsible to pay for all shippin[g] charges. In the absence of specific instructions, Wang wi[ll] select the carrier who shall not be construed to be an agent o[f] Wang.

(b) The Customer shall be responsible for placing the Hardware in position at the installation site.

(c) Where Hardware is to be installed by Wang, Wang shall perform the installation, inspection and diagnostic checks of the Hardware using Wang's standard test procedures.

(d) Where Hardware is to be installed by the Customer, Wang shall provide instructions and the Customer shall be responsible for installation in accordance with such instructions.

(e) Wang reserves the right to make partial shipments of Products ordered and the Customer agrees to pay for same as provided herein.

6. LEASE COMMENCEMENT DATE

(a) In the case of Wang-installed Hardware, the Lease Commencement Date shall be the date of the completion of Wang's standard test procedures.

(b) In the case of Customer-installed Hardware, Wang sh[all be] under no obligation to perform any acceptance procedures and the Lease Commencement Date shall be deemed to be fifteen (15) days from the date of delivery to the Customer.

(c) In the case of Hardware that is part of a partial delivery, the Lease Commencement Date shall be deemed to be fifteen (15) days from the date of delivery to the Customer.

(d) Upon installation the Customer may be requested and agrees to furnish Wang with a written statement accepting Hardware and setting out the Lease Commencement Date.

(e) If the statement referred to above is not delivered to Wang within fifteen (15) days from the date of request Wang may consider that the Hardware has been accepted by the Customer fifteen (15) days after delivery.

7. USE OF HARDWARE

During the term of this Agreement or any extension thereof the Customer agrees that all Hardware shall be maintained under a standard Wang Maintenance Agreement by Wang or Wang-authorized agents and used in compliance with Wang's instruction manuals, and with all laws, rules and regulations of the jurisdiction wherein the Hardware is located. The Customer shall pay all costs, expenses, fees and charges incurred in connection with the use, operation and maintenance of the Hardware. Notwithstanding the provisions of the Wang standard Maintenance Agreement the Customer shall at all times retain possession and control of the Hardware and shall not, without the prior written consent of Wang, assign or sublease its interest in any of the Hardware, or remove any item of Hardware from the place of installation set forth in a Supplement. The Customer shall keep each item of Hardware free from all liens, charges a[nd] encumbrances of any kind except for any caused by Wang.

8. REMANUFACTURED COMPONENTS

Hardware furnished by Wang hereunder may contain remanufactured subassemblies or parts which shall have been cleaned, refinished, inspected and tested to new Hardware test standards. Any such Hardware shall be equivalent to new in

performance and shall meet published performance specifications of Wang.

SOFTWARE

The following terms and conditions shall apply to Software licensed to Customer under this Agreement and listed in a Supplement.

9. LICENSE

(a) Each item of Software, including any subsequent updates provided hereunder, is furnished to the Customer under a nontransferable, nonexclusive license for use by the Customer on a single designated central processing unit (CPU). This Software may be copied in whole or in part (up to a maximum of three (3) machine readable copies) for Customer's internal use on the designated CPU. The Customer agrees to reproduce and include Wang's copyright and/or other legend on each copy of the Software, including partial copies and modifications of the Software. All copies of the Software, in whole or in part, including all updates are the property of Wang and no title to or ownership of the Software or any unmodified parts thereof is hereto transferred to the Customer. The Software is proprietary and confidential information of Wang and the Customer agrees not to provide, disclose or make available any Software or part thereof to any third party without the prior written consent of Wang.

(b) This license is effective from the Lease Commencement date and shall remain in effect until the license expires or is terminated by the Customer or by Wang. In the event of such expiration or termination, the Customer will certify in writing to Wang that to the best of its knowledge, the original and all copies of the Software have been either returned to Wang or destroyed.

10. SOFTWARE CHARGES

The charges, if any, for each item of Software will be as provided in the applicable Supplement. These charges may include an initial license fee, installation fee, and/or a periodic usage fee. Partial months fees will be prorated based upon a three hundred and sixty-five (365) day year.

RESPONSIBILITIES OF THE CUSTOMER

(a) Throughout the term of any Supplement the Customer shall ensure that the Hardware is maintained by Wang or a Wang authorized agent.

(b) Engineering changes determined applicable by Wang will be installed by Wang at no charge.

(c) The Customer shall not make any alterations to the Hardware without the prior written consent of Wang. An alteration is defined as any change to Hardware which deviates from the physical, mechanical, or electrical design of Wang.

(d) The Customer shall not make any attachments to the Hardware without prior written notice to Wang. An attachment is defined as the mechanical, electrical, or electronic connection to Hardware of non-Wang hardware or devices not supplied by Wang.

(e) The Customer agrees to accept the responsibility for making any such alteration or attachment, its use and the results obtained therefrom.

(f) The Customer agrees to pay all charges related to the alteration or attachment. The Customer further agrees to remove any alteration or attachment and to restore the machine to its normal, unaltered condition prior to its return to Wang, or upon notice from Wang that the alteration or attachment creates a safety hazard or may render the proper maintenance of the Hardware impractical.

GENERAL TERMS AND CONDITIONS

The following terms and conditions shall apply to any Products ordered by the Customer under this Agreement.

12. TAXES

Unless otherwise indicated on the Supplement the charges do not include federal (other than Federal Sales Tax and duty), provincial, municipal or other political subdivision, excise, sales, use, property, occupational or other taxes howsoever designated now or enacted in the future. Any such taxes paid or payable by Wang for the sale or delivery of Hardware or Software, except taxes based on Wang's net income, shall be borne by the Customer.

13. RISK OF LOSS AND INSURANCE

(a) From the time of installation or from the time of delivery for Customer-installed Hardware to the time of surrender of the Hardware, as defined elsewhere in this Agreement, to Wang, the Customer shall bear all risk of loss, damage or destruction of any of the Products whether or not covered by insurance, including but not limited to loss of profits, consequential damage, inconvenience, or loss of use for any period of time.

(b) The Customer shall at its own cost and expense keep the products insured at not less than a sum equal to the amount of the total unpaid Lease payments which would have accrued for the balance of the term of the Supplement plus the residual value of the Hardware against damage by fire, windstorm, explosion, and such other risks for which insurance coverage is commercially available. The insurance policy shall provide that, in the event of loss, which is defined as any damage for which the cost of restoration of the Hardware exceeds the insured value, the indemnity shall be paid directly to Wang as designated beneficiary.

(c) The Customer agrees to maintain a minimum of $1,000,000 public liability and property damage insurance for its own account, taking into account that the liability of the Customer for any injuries to persons and damage to property that may result from the possession or use of the Hardware may exceed the contractual limits of the liability of the Customer.

(d) The insurance policies referred to above shall be subscribed by Customer before the date of delivery of the Hardware. These policies shall provide for the undertaking of the insurance company not to cancel or suspend the effects of the insurance unless one month's advance notice is given by registered mail to Wang. A copy of the insurance policies shall be handed over to Wang upon request.

14. INDEMNITY

The Customer will indemnify and save harmless Wang and any assignee of Wang from and against any and all losses, damages, injuries, claims, demands and expenses, including reasonable legal fees and expenses, of any nature arising out of the installation, removal, use, condition, storage or operation of the Products or any part thereof. The indemnities and assumptions of liability in this section 14 shall continue in full force and effect notwithstanding the termination of the Lease or the termination of the term hereof with respect to any one or more of the Products.

15. OWNERSHIP OF HARDWARE

(a) The Hardware shall remain the exclusive property of Wang throughout the term of the Supplement. The Customer undertakes to take all steps as may be useful or necessary to ensure Wang's ownership thereof.

(b) If requested, Customer shall have affixed and maintained on the Hardware a notice attached conspicuously stating that the Hardware is the property of "Wang Canada Limited" which notice may not be removed.

(c) Customer undertakes to inform Wang immediately by registered letter, whenever: (i) a third-party attempts to attach or seize any Product or makes any claim thereon; or, (ii) any Product is stolen, damaged or involved in an accident resulting in injuries to persons or damage to property.

16. PATENTS AND COPYRIGHT

(a) If notified promptly in writing of any action (and all prior claims relating to such action) brought against the Customer, based on a claim that the Customer's use of the Products infringes a Canadian patent or copyright, Wang shall defend such action at its expense and pay the costs and damages awarded in any such action; provided that, Wang shall have control of the defense of any such action and all negotiations for its settlement or compromise.

(b) In the event that a final injunction shall have been obtained against the Customer's use of any Product because of patent infringement or if in Wang's opinion, such Product is likely to become the subject of a claim of infringement, Wang shall, at its option and expense, either (i) procure for the Customer

the right to continue using such Product; or (ii) replace or modify the same so that it becomes non-infringing; or (iii) grant the Customer credit for such Product as depreciated and accept its return. The depreciation shall be an equal amount per year over the lifetime of the product as established by Wang.

(c) Wang shall not have any liability to the Customer under any provision of Section 16(b) if the infringement or claim thereof is based upon: (i) the use of Products in combination with other hardware or software which is not supplied by Wang; or, (ii) compliance with designs, specifications or instructions furnished by the Customer; or (iii) the use of a Wang Product in a manner for which it was neither designed nor contemplated; or, (iv) the use of Products in practicing any process.

(d) Wang's total liability to the Customer under this Section 16 shall not exceed the aggregate sum paid to Wang by the Customer for the Product(s) supplied.

(e) The foregoing states the entire liability of Wang with respect to the infringement of patents or copyright by Products or any part thereof or by their operation.

(f) The Customer will indemnify and save harmless Wang against any expense, judgment or loss for infringement of any patents, copyright or trademarks which result from compliance of Wang with Customer's designs, specifications or instructions. No cost or expense will be incurred on behalf of Wang without the prior written consent of Wang.

17. CONFIDENTIAL INFORMATION

The Customer agrees to maintain in confidence and not to disclose, reproduce or copy any materials, documentation or specifications which are marked confidential or proprietary and are provided to the Customer hereunder.

18. ASSIGNMENT

Wang or any assignee of Wang may, at any time, assign its title to the products, its rights under this Agreement to the Products and/or to the Lease payments and other sums at any time due and to become due, or at any time owing or payable, by the Customer to Wang under any of the provisions of this Agreement. The Customer agrees that no assignee shall be obligated to perform any duty, covenant or condition required to be performed by Wang under any of the terms hereof, and the rights of any assignee in and to the sums payable by the Customer under any provisions of this Agreement shall not be subject to any abatement whatsoever, and shall not be subject to any defense, setoff, counterclaim or recoupment whatsoever by reason of any damage to or loss or destruction of the Products, or any part thereof, or reason of any other indebtedness or liability of Wang to the Customer, however and whenever arising. Any assignee shall otherwise enjoy all rights of Wang hereunder. It is further understood and agreed that Wang may from time to time grant a security interest in any or all of the Products by means of a security agreement, conditional sales agreement, chattel mortgage or similar agreement. In the event that separate assignments are executed by Wang of the Lease payments and other sums payable under this Lease, this Agreement shall be deemed to be and shall be construed as a divisible and severable contract for the leasing of Products covered by each separate assignment, and the assignee shall be entitled to exercise all the rights and remedies of Wang as to the Products covered by the assignment to said assignee. Any such assignment shall not diminish the obligations of Wang otherwise created by this Agreement except that Wang reserves the right to substitute Hardware with Hardware equivalent or better in quality or performance in order to meet purchase obligations. Customer may not assign this Agreement or any orders hereunder without the prior written consent of Wang.

19. DEFAULT AND REMEDIES

(a) In the event that Customer shall default in the payment of any sum payable hereunder and such default shall continue for more than ten (10) days after the due date thereof; or shall default in the observance or performance of any other covenant herein and such default shall continue for more than thirty (30) days after notice thereof to the Customer by Wang; or shall become insolvent or be adjudicated bankrupt; or the Customer shall make any voluntary assignment to transfer all or substantially all of the Customer's property; or the Customer shall permit or there shall occur any involuntary transfer of any interest in all or substantially all of Customer's property by bankruptcy or by the appointment of a receiver or trustee or by execution or by any judicial decree or process or otherwise, then in any such case Wang at its option may:

(i) Proceed by appropriate court action or actions, either at law or in equity, to enforce performance by the Customer of the applicable covenants and terms of the Lease or to recover damages for the breach thereof; or

(ii) By notice in writing to the Customer, terminate this Agreement as to all or any part of the Products leased hereunder, whereupon all interests of the Customer in such Products shall cease, but the Customer shall remain liable as hereinafter provided, and in such an event Wang may, directly or by its agent, enter upon the premises where the Products may be located and take possession of the Products (any damage occasioned by taking of possession being hereby expressly waived by the Customer, and Wang hereby being released from the liability therefor.)

(b) In order to protect the interests and reasonably expected profits and bargains of Wang, in the event of such termination, Wang may either (i) retain all Lease payments and other sums heretofor paid by the Customer, including the deposit, if any; or, (ii) may re-lease or rent all or any part of the Products for such rentals and upon such terms as Wang shall elect; or, (iii) sell all or any part of the Products at public or private sale and either for cash or upon credit; or, (iv) may keep any proceeds from any existing sub-Lease or rental including the purchase price if sold under a purchase option; or, (v) shall in addition to all or any rights and remedies hereunder, be entitled to recover from the Customer all rents and additional sums accrued and unpaid under any of the terms hereof and the sum equal to the total unpaid Lease payments which would have accrued for the balance of the term of this Agreement. Wang may ship the Product to any location it desires in order to effect a re-leasing or sale.

(c) In addition to the foregoing, Wang shall be entitled to recover from Customer any and all damages which Wang shall sustain by reason of breach by the Customer of any of the covenants and terms of the Agreement, together with a reasonable sum for legal fees and such expenses as shall be expended or incurred in the seizure, rental, sale or lease of the Products including a late payment charge of eighteen percent (18%) per annum, (1.5% per month) but not in excess of the lawful maximum on the unpaid balance, shipping charges or charges incurred in the enforcement of any right or privilege hereunder or in any consultation or action in connection therewith.

(d) Wang may enter any premises occupied by the Customer during ordinary business hours for the purpose of exercising its rights under this Section, for the purpose of selling or re-leasing or renting the Products, or for the purpose of conducting a public or private sale of the Products.

(e) Wang may, but shall not be required to draw against any deposit in the event of default hereunder by the Customer, in which event the Customer shall, upon demand, restore said

deposit to its original balance. The remedies herein provided in favour of Wang in the event of default as hereinabove set forth shall not be deemed to be exclusive but shall be cumulative and shall be in addition to all other remedies available to Wang in law, in equity or in brankruptcy.

20. PURCHASE OPTION

The Customer is granted the right to purchase the Hardware at the end of the Lease Agreement Period at a price corresponding to the residual value of the Hardware as set forth in the Supplement. All taxes relating to such sale being at the cost and expense of Customer.

21. SURRENDER

In the event the Customer does not either extend the Lease Period or exercise its purchase option as set out in the Supplement then at the expiration or termination of any Lease Period under this Agreement, the Customer shall assemble the Products at a location designated in writing by Wang, and surrender possession of the Products to Wang in as good order and repair, as when delivered, ordinary wear and tear excepted. All costs of removal are for the account of the Customer.

22. LIMITATION OF LIABILITY

(a) WANG MAKES NO WARRANTIES OR REPRESENTATIONS, EITHER EXPRESS OR IMPLIED, BY OPERATION OF LAW OR OTHERWISE, WITH RESPECT TO ANY PRODUCT OR SERVICE SUPPLIED UNDER THIS AGREEMENT. WANG EXPRESSLY DISCLAIMS ANY WARRANTY OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE. IN NO EVENT SHALL WANG BE LIABLE FOR SPECIAL, INCIDENTAL, CONSEQUENTIAL OR INDIRECT DAMAGES ARISING OUT OF THE USE, PERFORMANCE OR FURNISHING OF ANY PRODUCT OR SERVICE.

(b) WANG'S LIABILITY TO THE CUSTOMER FOR DAMAGES, FROM ANY CAUSE WHATSOEVER, AND REGARDLESS OF THE FORM OF ACTION, SHALL BE LIMITED TO THE REMEDIES SET OUT IN THIS AGREEMENT BUT IN ANY EVENT SHALL NOT EXCEED CHARGES PAID OR PAYABLE UNDER THIS AGREEMENT.

(c) WANG SHALL NOT BE LIABLE FOR ANY LOSS OF USE, REVENUE OR PROFIT EVEN IF WANG SHALL HAVE BEEN ADVISED OF THE POSSIBILITY OF SUCH POTENTIAL LOSS OR DAMAGE OR ANY CLAIM OR ACTION BROUGHT AGAINST THE CUSTOMER BY ANY THIRD PARTY.

23. LEGAL NOTICE

(a) Any notice, request, demand, consent or other communication provided or permitted hereunder shall be in writing and given by personal delivery, transmitted by telex or telecopier and if intended to be given to the Customer addressed to the Customer at the address set forth herein and if intended to be given to Wang at 225 Duncan Mill Road, Don Mills, Ontario M3B 3K9, Attention: General Manager.

(b) Either party may change its address for purposes of receipt of any such communication by giving ten (10) days prior written notice to the other in the manner prescribed above. Any notice so given shall be deemed to have been received on the date on which it was delivered or the date on which it was transmitted if by telex or telecopier, or if mailed on the fifth business day next following the mailing thereof.

24. MISCELLANEOUS

(a) This Agreement constitutes the complete agreement between Wang and the Customer and supersedes all previous proposals, both oral and written, representations, negotiations, commitments and all other communications between the parties.

(b) The terms and conditions of this Agreement shall govern, notwithstanding the submission of a Customer Purchase Order containing alternate terms and conditions.

(c) This Agreement may not be changed or modified except by an instrument in writing signed by authorized representatives of the parties.

(d) The Customer shall not assign or otherwise transfer its rights or obligations hereunder without the prior written consent of Wang.

(e) No failure to exercise and no delay in exercising, on the part of either party, any right, power or privilege hereunder will operate as a waiver thereof, nor will any single or partial exercise of any right, power or privilege hereunder preclude further exercise of any other right hereunder.

(f) If any part of this Agreement shall be adjudged by any court of competent jurisdiction to be invalid, such judgment will not affect or nullify the remainder of this Agreement but the effect thereof will be confined to the part immediately involved in the controversy adjudged.

(g) Neither party shall be deemed to be in default for any delay or failure to perform its obligations under this Agreement resulting from acts of God, the elements, strikes, shortages of parts, labour or transportation or any other causes beyond the reasonable control of such party.

(h) The Customer may be entitled to various support services for Products provided hereunder. Such services include assistance in implementation planning, systems analysis and design, installation, evaluation and training in accordance with then current Wang policy.

(i) This Agreement shall be governed by and interpreted in accordance with the laws of the location where the contract is accepted.

(j) Both parties agree that it is their express wish that this Agreement and all related documents be drawn up in English.

Les parties déclarent que la prescrite entente ainsi que tous les documents qui s'y rattachent, sont rédigés en anglais selon leur volonté expresse.

ACCEPTANCE

CUSTOMER	WANG CANADA LIMITED
NAME ~~P.S.~~ PROGAS LIMITED	NAME S. J. CLARKE
SIGNATURE [signature]	SIGNATURE [signature]
TITLE SUPERVISOR, OPERATIONS DATE JUNE 29/83	TITLE MGR. FINANCIAL OPERATIONS DATE SEP 12 '83

WANG
CANADA LIMITED

[illegible] ORDERING SUPPLEMENT
THIS ORD[illegible] SUPPLEMENT IS INCORPORATED INTO AND PART OF
LEASE AGREEMENT NO ________ THE TERMS AND CONDITIONS
OF WHICH SHALL GOVERN THE ORDER

PAGE ____ OF ____

INVOICE TO		SHIP TO (IF DIFFERENT FROM "INVOICE TO")
W. I. F. L. CANADA LTD.	CUSTOMER NAME	PROGAS LTD.
	DIVISION / DEPT	
Attn.	ATTENTION	Attn.
225 DUNCAN MILL ROAD	ADDRESS	1620 [illegible] 4TH AVENUE S.W
DON MILLS ONTARIO M3B 3K9	CITY / PROV / POSTAL CODE	CALGARY ALBERTA T2P 3N4

ACKNOWLEDGEMENT (IF DIFFERENT FROM "INVOICE TO")		SHIPPING / INSTALLATION INVOICE (IF DIFFERENT FROM "SHIP TO")
	CUSTOMER NAME	
	DIVISION / DEPT.	
Attn:	ATTENTION	Attn:
	ADDRESS	
	CITY / PROV. / POSTAL CODE	

SCHEDULE OF PRODUCTS			ESTIMATED SHIP DATE		DUTY AND F.S.T. EXEMPT PRICES FOR DISCOUNT CALCULATIONS	
MODEL NO.	QTY.	DESCRIPTION	UNIT PRICE	EXT. PRICE	UNIT PRICE	EXT. PRICE
VS458S	1	VS 45 WITH 512K MEMORY				
		1.2 MB DISKETTE, 68 MB				
		DISK, 32 IOP		59,925 00		
2246S	1	SYSTEM CONSOLE		4,325 00		
VS25/45		64K ARCHIVING WORKSTATION				
WP		AND WORD PROCESSING		15,700 00		
195-2122						
-5	1	FORTRAN 66 COMPILER		4,260 00		
25V76-1		SINGLE PORT COMMUNICATIONS		2,200 00		
195 2080						
-5	1	2780/3780 EMULATION		1,420 00		
5577V	1	HIGH DENSITY MATRIX				
		PRINTER		8,575 00		
658/W-1	2	35 CPS DAISY PRINTER	7,175 00	14,350 00		
BFT-1	1	FORMS TRACTOR FOR 5577		450 00		
TSF-31	2	TWIN SHEET FEEDER	2,875 00	5,750 00		

TRADE-IN EQUIPMENT MODEL NO.	SERIAL NO.	VALUE	ORIG. W.O. #
TOTAL TRADE-IN		$	

SUB-TOTAL	111,955 00	TOTAL	
LESS DISCOUNT		DISCOUNT AT %	
LESS TRADE-IN		LEASE TERM (MONTHS)	36
TOTAL	111,955 00	X LEASE RATE (% MO.)	3.193 %
INSTALLATION CHARGE (INVOICED SEPARATELY)	N/C	MONTHLY LEASE PAYMENT	3,574.72
		P.S.T. (IF APPLICABLE)	N/A
		TOTAL MONTHLY PAYMENT	$ 3,574.72

ACCEPTANCE

CUSTOMER

[signature] SUPERVISOR OPERATIONS
SIGNATURE TITLE DATE

WANG CANADA LIMITED
275 DUNCAN MILL ROAD DON MILLS, ONTARIO M3B 3K9

SIGNATURE TITLE DATE

FOR OFFICE USE ONLY
WORK ORDER NO.
ADVANCE PAYMENTS REC'D
ADD-ON TO W.O. #
UPGRADE TO W.O. #

FORM 4A (1/83)

HEAD OFFICE CONTRACTS ADMINIST[illegible]

WANG
CANADA LIMITED

LEASE ORDERING SUPPLEMENT

THIS ORDERING SUPPLEMENT IS INCORPORATED INTO AND ... PART OF LEASE AGREEMENT NO C3121 THE TERMS AND CONDITIONS OF WHICH SHALL GOVERN THE ORDER

PAGE ____ OF ____

INVOICE TO		SHIP TO (IF DIFFERENT FROM "INVOICE TO")
W.I.F.L. CANADA LTD.	CUSTOMER NAME	PROGAS LTD.
	DIVISION / DEPT	
Attn:	ATTENTION	Attn:
225 DUNCAN MILL ROAD	ADDRESS	1620 - 4TH AVENUE S.W.
DON MILLS ONTARIO M3B 3H9	CITY / PROV / POSTAL CODE	CALGARY ALBERTA T2P 3N

ACKNOWLEDGEMENT (IF DIFFERENT FROM "INVOICE TO")		SHIPPING / INSTALLATION INVOICE (IF DIFFERENT FROM "SHIP TO")
	CUSTOMER NAME	
	DIVISION / DEPT.	
Attn:	ATTENTION	Attn:
	ADDRESS	
	CITY / PROV. / POSTAL CODE	

SCHEDULE OF PRODUCTS — ESTIMATED SHIP DATE: * 28 JULY 83 / 28 SEPT 83

DUTY AND EXCISE EXEMPT PRICES FOR DISCOUNT CALCULATION

MODEL NO.	QTY	DESCRIPTION	UNIT PRICE	EXT. PRICE	UNIT PRICE	EXT. PRICE
PC001	4*	PC SYSTEM UNIT KEYBOARD, DISKETTE, MS/DOS + BASIC	3,650.00	14,600.00		
PCPM001	4*	CHARACTER DISPLAY ADAPTER	475.00	1,900.00		
PCPM004	4*	MONOCHROME DISPLAY	500.00	2,000.00		
	*	TO BE SUPPLIED FROM CANADIAN INVENTORY AS PER STEPHEN SEIP				
PC002	4	PROFESSIONAL COMPUTER	4,625.00	18,500.00		
PCPM041	8	LOCAL COMMUNICATIONS TO VS 45	2,825.00	22,600.00		

TRADE-IN EQUIPMENT MODEL NO.	SERIAL NO.	VALUE	ORIG. W.O. #
TOTAL TRADE-IN		$	

SUB-TOTAL	59,600.00
LESS DISCOUNT	
LESS TRADE-IN	
TOTAL	59,600.00
INSTALLATION CHARGE (INVOICED SEPARATELY)	N/C

TOTAL PRICE	
DISCOUNT AT ___ %	
LEASE TERM (MONTHS)	36
X LEASE RATE (% MO)	3.193
MONTHLY LEASE PAYMENT	1,903.03
P.S.T. (IF APPLICABLE)	N/A
TOTAL MONTHLY PAYMENT	1903.03

ACCEPTANCE

CUSTOMER

[signature] — SUPERVISOR OPERATIONS — JUNE 29/83
SIGNATURE — TITLE — DATE

WANG CANADA LIMITED
225 DUNCAN MILL ROAD DON MILLS ONTARIO M3B 3K9

SIGNATURE — TITLE — DATE

FOR OFFICE USE ONLY

WORK ORDER NO.
ADVANCE PAYMENTS REC'D
ADD-ON TO W.O. #
UPGRADE TO W.O. #

FORM 4A (6/83)

PEAT MARWICK

PROGAS
RECEIVED
OCT 26 1983

VOB
cc to TAC

Peat, Marwick, Mitchell & Co.
Chartered Accountants
Suite 2500
700 Second Street S.W.
Calgary, Alberta T2P 2W2
(403) 266-6041

October 26, 1983

ProGas Limited
Suite 1620
144 - 4th Avenue S.W.
Calgary, Alberta
T2P 3N4

Attention: V.O. Bohonos

Dear Mr. Bohonos:

We have been asked to write to you to set out the criteria used to determine if a lease agreement should be capitalized for accounting purposes and also to confirm that the recent lease agreement signed with Wang Canada Limited for computer equipment qualifies as a capital lease.

The Canadian Institute of Chartered Accountants recommends that when a lease transfers substantially all of the benefits and risks of ownership related to the leased property from the lessor to the lessee, it should be accounted for as a capital lease by the lessee.

From the point of view of a lessee, a lease would normally transfer substantially all of the benefits and risks of ownership to the lessee when, at the inception of the lease, one or more of the following conditions are present:

(a) There is reasonable assurance that the lessee will obtain ownership of the lease property by the end of the lease term. Reasonable assurance that the lessee will obtain ownership of the leased property would be present when the terms of the lease would result in ownership being transferred to the lessee by the end of the lease term or when the lease provides for a bargain purchase option.

.../2

(b) The lease term is of such a duration that the lessee will receive substantially all of the economic benefits expected to be derived from the use of the leased property over its life span. Although the lease term may not be equal to the economic life of the leased property in terms of years, the lessee would normally be expected to receive substantially all of the economic benefits to be derived from the leased property when the lease term is equal to a major portion (usually 75% or more) of the economic life of the leased property. This is due to the fact that new equipment reflecting later technology and in prime condition, may be assumed to be more efficient than old equipment which has been subject to obsolescence and wear.

(c) The lessor would be assured of recovering the investment in the leased property and of earning a return on the investment as a result of the lease agreement. This condition would exist if the present value, at the beginning of the lease term, of the minimum lease payments, excluding any portion thereof relating to executory costs, is equal to substantially all (usually 90% or more) of the fair value of the leased property, at the inception of the lease.

In the case of the lease agreement between ProGas Limited and Wang Canada Limited the first condition might be considered to have been met because, at the expiration of the 36 month lease term, the computer and related equipment may be purchased outright by the Company for 20% of its present day cost.

The second condition will also probably be met in view of the dramatic technological developments presently taking place within the computer industry.

Our calculations also show that using a discount factor of 15% (which is approximately 4% greater than the prime lending rate at the date of signing the lease agreement and approximates the Company's rate of return), the present value of the 36 monthly lease payments of $5,477.75 is $158,016.66. Since this represents approximately 92% of the fair value of the equipment estimated at $171,555, the third condition above has also been met.

Accordingly, from an accounting viewpoint under present conditions this lease should be accounted for as a capital lease by ProGas Limited and the asset and related obligation should be set up on the Company's balance sheet.

.../3

If I can be of any further assistance to you on this matter please feel free to contact me.

Yours very truly,

PEAT, MARWICK, MITCHELL & CO.

Navin M. Dave, Partner

NMD:ef

Response to A.P.M.C. Deficiency Letter

(re: Docket No. 84-03)

5. a) ProGas Limited is not requesting approval of the proforma capital structure and component cost rates resulting in a weighted average cost of 13.749% as outlined in Schedule 12 of Docket No. 84-03. ProGas Limited is merely providing the Commission with a response to its letter dated September 30, 1983 requesting this information.

5. b) ProGas Limited considers the preferred share capital to be in reality another component of debt for the following reasons:

   i) The amounts capitalized as preferred equity and debt were determined in such a manner as to be similar to the debt-equity ratio of other shippers in Alberta.

   ii) ProGas understands that in most jurisdictions, the preferred shares of regulated companies are considered as equivalent to debt. Specifically ProGas believes this to be the case in Alberta with regard to the Alberta Public Utilities Board. In addition, in S.E.C. jurisdictions in the United States, it is required that preferred shares whose redemption is outside the control of the issuer be captioned separately, and such shares cannot be included under the caption Shareholders' Equity.

   iii) As described in the ProGas Shareholders' Agreement, Section 5.1, prepayment of Debentures and redemption of Preferred Shares are congruous as to method of payment and percentage of principal to be repaid in each installment.

   iv) Any shift between preferred equity and debt would have little or no effect on cost of service since the income tax consequences with respect to preferred shares will result in a cost of service similar to the higher cost of debt because the preferred share dividend rate of 8.25% approximates, on an after tax basis, the 15.0% per annum interest rate on debt assuming an income tax rate of 47.0%.

In light of the foregoing ProGas respectfully requests that the capital structure (i.e. debt to equity ratio) not be altered, and that preferred shares be considered as debt.

Response to A.P.M.C. Deficiency Letter

(re: Docket No. 84-03)

5. c) Under current conditions ProGas believes the 17% cost rate on equity is reasonable for the following reasons:

i) Although interest rates today are lower than in 1981 when the 17% cost rate was approved by the Commission, they have fluctuated from a high of 22.75% to a low of 11.0 % (prime rates). Currently they appear to be edging up again. If a 2% premium is allowed for risk then the 17% approved cost rate is well within the range of interest rates over the past 2 1/2 years.

ii) ProGas has a low cost of service relative to other shippers.

iii) The gas marketing industry continues to be subject to numerous uncertainties with regard to: demand for gas and consequent take or pay receivable and payable consequences; future prices; governmental and regulatory attitudes in Canada and in the United States.

iv) Until some of the above uncertainties are clarified, ProGas believes it is necessary and appropriate that a cost rate of 17% be allocated to common equity.

Response to A.P.M.C. Deficiency Letter

dated February 27, 1984

(re: Docket No. 84-03)

6. Under Section A (Application, subsection 2) the effective date should read December 1, 1983 as throughout the remainder of the text.

DETERMINATION 84-23 (PAG)
ALBERTA COST OF SERVICE
NATURAL GAS PRICING AGREEMENT ACT

APPLICATION

In response to the Commission's request dated September 30, 1983 to provide updated rate of return information, Pan-Alberta Gas Ltd. (Pan-Alberta), by application dated December 1, 1983 as amended February 29, 1984 and April 4, 1984, requests approval to amend its capital structure for its investment rate base and to maintain all other aspects of the existing return on rate base approvals. The application (except exhibits) is shown in Appendix "A" hereto.

DECISION

1. The deemed capital structure for determining a rate of return on rate base shall be 50% debt and 50% common equity.

2. The rate of return on rate base shall be the composite rate resulting from calculation of the debt component at the Bank of Montreal prime rate and a rate of 16% for the common equity component.

3. The equity method of arriving at taxable income for the purposes of calculating income taxes on a flow-through basis shall be followed.

4. The above shall be effective July 1, 1984.

REASONS

Pan-Alberta applied for a capital structure consisting of an equity component of $7.5 million with the balance of the rate base considered as debt financed. Based on the requested equity component of $7.5 million, the resulting capital structure as estimated by Pan-Alberta would be 38:62 and 35:65 debt/equity for 1984 and 1985 respectively. With the equity component fixed at $7.5 million, the debt/equity ratio can be expected to decrease as Pan-Alberta's rate base declines upon amortization of deferred development costs. The Commission views this result as inappropriate for Alberta cost of service purposes. Further, the determined cost of equity capital based on the requested equity component, after taking into account the income tax effect, would impose an undue burden on the producers. The Commission considers an increase in the common equity component of the capital structure to 50% to be reasonable in the circumstances.

.../2

The Commission considers debt financing at the bank prime rate to be reasonable. In view of the fact that Pan-Alberta's source of debt is by way of floating prime-based loans, the Commission agrees that the variable nature of these debt costs should be reflected in the rate of return calculation.

A rate of return on common equity of 16% is considered to be appropriate having regard to the yield on low-risk long term government bonds and the business and financial risks of the company.

DATED THIS 17th day of August, 1984 at Calgary, Alberta.

M. R. Pullam
Acting Secretary

APPENDIX "A"

PAN-ALBERTA GAS LTD.

Application to the Alberta Petroleum Marketing Commission

to amend Pan-Alberta Gas Ltd.'s

Rate of Return on Rate Base

DECEMBER 1, 1983

0561F

REQUEST

As a result of certain regulatory decisions, Pan-Alberta Gas Ltd. ("Pan-Alberta" or the "Company") was placed on a return on rate base method of compensation. Pan-Alberta has never accepted this methodology as being appropriate to its activities, and this application is not intended to imply otherwise. The sole purpose of this request is to provide a more equitable treatment within the "given" return on rate base framework.

By letter dated September 30, 1983, the Alberta Petroleum Marketing Commission (the "Commission") requested Pan-Alberta to file an application to enable the Commission to "... review whether the capital structure and the cost rates of the components of capital structure used in the determination of rate of return on rate base are appropriate under current circumstances.".

Pan-Alberta submits that a rate of return on rate base must not only be responsive to general economic conditions but also to the particular circumstances of the entity to which it applies. Having given due consideration to both of these factors, Pan-Alberta hereby makes the following requests for the reasons indicated.

a) For purposes of establishing a deemed capitalization for its rate base investment, Pan-Alberta requests that its equity component be set at $7.5MM with the residual being viewed as debt. The present method for deeming capital structure seriously misrepresents the Company's required equity base and its capacity for debt.

b) In spite of the existance of justification to support an increase, Pan-Alberta requests that its allowed rate

of return on equity be maintained at the present level due to the significant reduction in its natural gas exports.

c) Pan-Alberta submits that all other aspects of the existing return on rate base approvals continue to be appropriate and therefore should be retained.

PRESENT PRACTISE

Pan-Alberta currently calculates its monthly return on rate base in accordance with Determination 78-13 (PAG) dated August 3, 1978, as amended by Determination 82-04 (PAG) dated April 16, 1982. The essential provisions of these determinations are as follows:

1. Rate Base:

The Company's approved rate base is comprised of its investment in the following assets:

a) linepack gas,
b) inventory gas,
c) office furniture and equipment,
d) leasehold improvements, and
e) deferred development costs

plus an allowance for working capital which is established at one-eighth of annual cash operating expenses, exclusive of purchased gas costs.

2. Capitalization:

The Company's capital structure is "deemed" to be 60% debt and 40% equity for return purposes.

3. Costs of Capital:

a) Deemed debt:

The cost of the deemed debt component is the prime interest rate at the Bank of Montreal, from time to time, and represents the cost of financing available to the Company. Due to the quality of the underlying security, the Company can only obtain short term demand bank loans.

b) Deemed equity:

The allowed rate of return on "deemed" equity is prescribed at 17% per annum.

4. Return on Rate Base:

The Company's return on rate base is calculated monthly based on the previous month's rate base investment and current month's "prime" rate of interest.

PROPOSED PRACTISE

1. Rate Base:

Pan-Alberta does not propose any changes to the components currently eligible for inclusion in rate base.

The Company's rate base investments for 1984 and 1985 are forecast to be $12,117.5M and $11,601.4M, respectively, on a mid-year basis (Schedule 1.0, APPENDIX I).

2. <u>Capitalization:</u>

In its last return on rate base application Pan-Alberta indicated that it would have to maintain a minimum shareholders' equity position of $7.5MM in order to secure short term bank financing. Although this equity requirement effectively established a minimum equity base for its regulated rate base investment, Pan-Alberta was prepared to overlook this fact on the expectation that it might usefully employ a portion of its equity in other corporate activities. The deemed 40% equity component suggested by the Company was predicated on it diverting some $5MM to $6MM of its forecast equity to other activities.

The anticipated development of other corporate business has not materialized, in large part due to the Commission's Flow Through Tax Determination 78-9 (PAG). Pan-Alberta has resigned itself to the fact that all its resources both current and future will be dedicated entirely to the business of acquiring and marketing natural gas. The Company has retained a $3.6MM Linepack Gas credit with the Bank of Montreal to fund temporary increases in its rate base due to inventory gas fluctuations. This credit was renewed in February, 1983 on the condition that the Company maintain the minimum equity requirement previously described. Pan-Alberta can no longer ignore this equity requirement in determining an appropriate equity component for rate base purposes.

Under the present practise of deeming its equity investment to be 40%, Pan-Alberta's equity is seriously understated. [In the Company's last application,

Fiscals Consultants Limited cautioned of this eventuality.] Based upon the Company's projected rate base investments for 1984 and 1985 (Schedule 1.0, APPENDIX I), the deemed equity investments for these years on the 40% criteria would be $4,847.0M and $4,640.6M, respectively, which are $2,653.0M and $2,859.4M less than the minimum requirement.

Pan-Alberta proposes that the first $7.5MM of its rate base investment be deemed to be equity with the residual being deemed as debt. As indicated on Schedule 2.0, APPENDIX I, this approach would yield deemed debt:equity ratios for 1984 and 1985 of 38:62 and 35:65, respectively. Pan-Alberta submits that this method will provide a deemed capitalization which is more representative of the equity it employs and of the Company's debt capacity.

3. Costs of Capital:

a) Deemed debt:

Pan-Alberta anticipates that it will require nominal amounts of financing, from time to time. In order to utilize arranged credits, Pan-Alberta must ensure that the allowed rate of return on rate base assets financed is equal to or greater than the Bank of Montreal prime rate at all times. Accordingly, Pan-Alberta submits that it is important that the existing method of costing deemed debt at the cost of such available financing be preserved.

b) Deemed equity:

Pan-Alberta engaged Fiscals Consultants Limited to establish a reasonable return on equity. The results of their study (APPENDIX II) suggest that a reasonable rate of return on equity for Pan-Alberta is in the order of 17% to 19%. While this study would support an increase in its allowed rate of return on equity, Pan-Alberta, in recognition of the significant deterioration in natural gas exports, proposes to maintain its rate of return on equity at the current level of 17%. Pan-Alberta submits that although the 17% was not adequate at the time it was first established by the Commission, it does command some acceptability under current circumstances.

4) Return on Rate Base:

Pan-Alberta's forecast rate of return on rate base for the years 1984 and 1985 would be 14.7% and 14.9%, (Schedule 2.0, APPENDIX I), as compared to 13.4% under existing approvals. The increases in rate of return result entirely from the required adjustment to capitalization.

The Company's forecast return for 1984 and 1985 are $1,781.3M and $1,728.6M, respectively (Schedule 3.0, APPENDIX I). These amounts would be recovered as indicated on lines 5 and 6 of Schedule 3.0.

IMPACT ON ALBERTA COST OF SERVICE

The return on rate base requested by Pan-Alberta will amount to .760¢ for 1984 and .501¢ for 1985, per GJ of forecast gas purchases. The Company's request represents an increase in cost over present approvals of .067¢/GJ for 1984 and .050¢/GJ for 1985 (Schedule 4.0, APPENDIX I).

The Company has not attempted to quantify the impact of the amounts it intends to recover under section 14(5)(b)(iii) of the Natural Gas Pricing Agreement Act.

EFFECT ON PAN-ALBERTA

Approval of this application will provide Pan-Alberta with a level of earnings comensurate with the amount of equity it employs in its regulated activities and will also ensure that Pan-Alberta can take advantage of debt financing as and when required.

Respectfully submitted,

PAN-ALBERTA GAS LTD.

by: G. Kaita
Treasurer

Communications relative to this application should be directed to:

G. Kaita
Pan-Alberta Gas Ltd.
500, 707 - 8th Avenue S.W.
Calgary, Alberta
T2P 3V3

Pan-Alberta Gas Ltd.

DELIVERED BY HAND

1984 02 29

Alberta Petroleum Marketing Commission
Attention: Mr. V. M. Thomas
General Manager, Natural Gas
1900, 250 - 6th Avenue S.W.
Calgary, Alberta
T2P 3H7

Dear Sirs:

Re: Docket Number 83-12

In response to your letter of February 24, 1984 we offer the following clarifications and comments.

Item 1:

The credit facilities referred to in your letter represented the maximum credit the Bank of Montreal was prepared to extend in December of 1981. The commitment amounts were predicated upon the underlying value of the assets at that time.

The deferred development cost facility for $4,059,000 was based on 66% of the value of certain deferred development costs. The amount of credit available to the Company was further limited to that portion which could be repaid, with the amortization of such deferred costs in the Company's Alberta cost of service, by January 15, 1987. Had the Company retained this credit and these same criteria were applied on December 31 of 1983, 1984 and 1985, the Company would qualify for $2,760,000, $1,843,000 and $921,000, respectively, of the original $4,059,000 offered. The Company cancelled this line of credit because it did not foresee any requirement for these funds.

The linepack credit for 60% of the Company's linepack investment, to a maximum of $3,600,000, was just recently renewed. The conditions and terms of this facility are virtually identical to those offered by the Bank of Montreal in December, 1981. The minimum shareholders' equity requirement of $7.5MM continues to be a condition of borrowing under this credit.

.../2

Item 2:

With regard to the impact on Alberta cost of service of the requested return and related income taxes, please refer to the attached schedule.

Yours truly,

PAN-ALBERTA GAS LTD.

G. Kaita

GK/llt
Enclosure

PAN-ALBERTA GAS LTD.

ALBERTA COST OF SERVICE IMPACT OF REQUESTED RETURN AND RELATED INCOME TAXES

Line No.	Description	Source/(Calculation)	(forecast) 1984	1985
1	Return on rate base ($000)	line 1, Schedule 4.0, APPENDIX I of application	1,535.9	1,462.1
2	Related income taxes ($000) (1)	(line 1 times .47/.53)	1,362.0	1,296.6
3	Requested return and related income taxes ($000)		2,897.9	2,758.7
4	Forecast purchases for sale Ex-Alberta (TJ)		190,656	229,937
	Impact on Alberta cost of service (¢/GJ):			
5	As requested	(line 3 divided by line 4)	1.520	1.200
6	As currently approved	(see note (2))	1.385	1.079
7	Requested increase		.135	.121

Notes:

(1) The Company is currently taxable; the forecast corporate income tax rate was assumed to be 47.0%.

(2) [(line 2, Schedule 4.0, APPENDIX I) x (1 + .47/.53)] divided by line 4.

Pan-Alberta Gas Ltd.

April 4, 1984

Alberta Petroleum Marketing Commission
1900, 250 - 6th Avenue S.W.
Calgary, Alberta
T2P 3H7

Attention: Mr. V.M. Thomas
General Manager, Natural Gas

Dear Sirs:

Re: Docket Number 83-12

Further to your letter of 1984.03.19 regarding the cancellation of our deferred development costs credit, we advise as follows.

The capitalization requested in the above referenced application was based upon the availablilty of debt financing. The $7.5mm equity component represents the minimum equity investment the company must have in place, prior to any financing being available. Once this equity requirement is met, the residual "deemed" debt component is limited only by the debt financing available.

For purposes of establishing the amount of debt available, the company would be prepared to consider, in addition to the renewed linepack credit, that portion of the deferred development costs credit which would have been otherwise available had it been renewed. The inclusion of the deferred development costs credit would be predicated upon proper recognition of the aforementioned equity requirement.

As a result of the foregoing treatment the cancellation of the deferred development costs credit will not result in a higher cost of capital being charged through the Alberta cost of service.

Yours truly,

PAN-ALBERTA GAS LTD.

G. Kaita, Treasurer

kn

RECEIVED
APR - 4 1984
ALBERTA PETROLEUM
MARKETING COMMISSION

Suite 500, 707 Eighth Avenue S.W., Calgary, Alberta T2P 3V3 Telephone (403) 234-6600 Telex 03-825517 Telecopy (403) 263-5240

Alberta PETROLEUM MARKETING COMMISSION

DETERMINATION 84-24 (A&S)
ALBERTA COST OF SERVICE
NATURAL GAS PRICING AGREEMENT ACT

APPLICATION

By application dated June 29, 1984, Alberta and Southern Gas Co. Ltd. (A&S) requests approval of the inclusion, in its Alberta cost of service from August 1984, of carrying costs associated with the financing of take or pay liabilities for the 1983/84 contract year.

A & S further requests that the Commission continue a multi-tiered Alberta cost of service for which the cost of service of each category of gas differs only in respect of the amounts allocated as carrying costs associated with the financing of take or pay liabilities.

The application is attached as "Appendix A".

DECISION

1. The application is approved except as provided below.

2. From July 1, 1984 until such time as the Commission has issued an order respecting access to Category E, no gas purchase contracts shall be included in this category without Commission approval.

3. A & S shall in August 1985 and by August of each year thereafter, provide such information as may be required by the Commission to assess the continued necessity for A & S to maintain financing for take or pay payments and the continued prudency of contract management.

REASONS

The Commission considers that the take or pay financing costs qualify under the Natural Gas Pricing Agreement Regulation (A.R. 119/82) as being " . . . considered just and reasonable by the Commission in respect of costs incurred by a person, whether or not the person is the original buyer, to finance payments made to or for the benefit of a producer in respect of gas not taken by the original buyer under a gas sales contract for which the producer was nevertheless entitled to be paid."

The Commission is in the process of reviewing the effectiveness of interest free categories of Alberta cost of service. Pending the outcome of the Commission's review, access to Category E is subject to the Commission's approval.

In reviewing the circumstances giving rise to A & S's take or pay payments for the contract year ended June 30, 1984, the Commission is satisfied that the situation did not result from the imprudent actions of A & S. The Commission also assessed and is satisfied there is continued necessity for A & S to maintain financing for take or pay payments made in respect of previous contract years.

DATED THIS 22nd day of August, 1984 at Calgary, Alberta.

ALBERTA PETROLEUM MARKETING COMMISSION

W. Murray Smith
Secretary

"APPENDIX A"

ALBERTA AND SOUTHERN GAS CO. LTD.

PROVINCE OF ALBERTA

ALBERTA PETROLEUM MARKETING COMMISSION

Application for the Approval of an Inclusion in the Alberta Cost of Service of Carrying Costs of Take-or-Pay Payments and for the continuation of a multi-tiered Alberta Cost of Service

I. Request

In accordance with the Alberta Petroleum Marketing Commission (the "Commission") manual "Alberta Cost of Service - Pursuant to the Natural Gas Pricing Agreement Act - Responsibilities and Procedures" dated January 1, 1979 and in particular Special Applications on page 8 thereof and in accordance with the Commission manual "Alberta Cost of Service - Pursuant to the Natural Gas Price Administration Act - Responsibilities and Procedures" dated November 1, 1980 and in particular Special Applications on page 7 thereof, Alberta and Southern Gas Co. Ltd. ("Alberta and Southern") requests approval of the inclusion in its Alberta cost of service from August 1984 of the carrying costs associated with a separate and identifiable short-term financing arrangement to pay for take-or-pay liabilities for its gas purchase contract year 1983-84 as hereinafter described. It is requested that the inclusion of these carrying costs in Alberta and Southern's Alberta cost of service be authorized until otherwise ordered by the Commission.

Alberta and Southern submits that the carrying costs described above are a legitimate component of the Alberta cost of service, being costs prescribed by regulation and falling within subsection 5.1(1)(c) of the Natural Gas Pricing Agreement Regulations, as amended and subsection 5.1(1)(c) of the Natural Gas Pricing Administration Regulations, as amended.

Secondly, Alberta and Southern requests that the Commission continue a multi-tiered Alberta cost of service with respect to its gas, which costs of service differ only in respect of the amounts allocated to each category of gas (as hereinafter described) as carrying costs associated with the separate and identifiable short-term financing arrangement to fund the cost of take-or-pay liabilities for each such category of gas.

Alberta and Southern submits that a significant inequity would result if producers who elect to receive reduced or no take-or-pay payments bear a portion of the higher carrying costs associated with payments made to those producers who do not so elect and receive the full payments.

Definitions

As used in this Application the following terms have the following meanings:

(a) "take-or-pay liabilities" or "take-or-pay payments" mean respectively liabilities for payments or payments that Alberta and Southern is contractually obliged to make in

the event it does not request and take, if available, stipulated minimum annual volumes of gas during a contract year;

(b) "category A gas" is gas delivered to Alberta and Southern under gas purchase contracts other than gas purchase contracts under which either category B gas or category E gas is delivered to Alberta and Southern.

(c) "category B gas" is gas delivered to Alberta and Southern under gas purchase contracts

(i) in respect of which take-or-pay payments are made for the contract year ending June 30, 1984 and in respect of which the take-or-pay payments for the contract years ending June 30, 1981, June 30, 1982, June 30, 1983 and June 30, 1984 are computed by multiplying twenty-five (25%) percent of the total volumes of deficiency gas under the contract in the applicable contract year by the price in effect on the last day of the applicable contract year; or

(ii) which are considered by Alberta and Southern to be solution gas contracts; or

(iii) which are considered by Alberta and Southern to be firm (deliverability and certain blowdown) gas contracts.

(d) "category E gas" is gas delivered to Alberta and Southern under gas purchase contracts in respect of which

take-or-pay payments are waived by the producers for the contract year ending June 30, 1984 and in respect of which the full amount of all prior take-or-pay payments is repaid to Alberta and Southern by August 24, 1984.

Update of Previous Applications

Rather than repeat the matters set out in Alberta and Southern's prior Applications for approval of an inclusion in the Alberta cost of service of carrying costs of take-or-pay payments which resulted in the issue of the previous Determinations, it is Alberta and Southern's intention to bring the prior Applications up to date by recounting significant developments since June 30, 1983, the date on which the last Application was filed. This review will generally follow the format of the prior Applications.

II. Background (since June, 1983)

A. Gas Purchase Contracts

There has been no major change in Alberta and Southern's gas contracting position as described in the prior Applications.

Since June 30, 1983 Alberta and Southern has committed to purchase 9.8 MMcf per day of solution gas from gas conservation schemes in the Caroline, Joarcam, Minnehik-Buck Lake, Pembina, Simonette, Westward Ho and Willesden Green fields. Of this total, gas deliveries of approximately 5.0 MMcf per day have commenced

from the Caroline, Minnehik-Buck Lake, Pembina, Simonette and Westward Ho fields. Solution gas is purchased by Alberta and Southern from time to time in accordance with the wishes of the Alberta Energy Resources Conservation Board ("the Board") as evidenced in the policy statement of the Board dated January 24, 1979, which policy statement was annexed as Appendix "B" to Alberta and Southern's application of June 16, 1980.

An increase of 12.7 MMcf per day in gas purchase obligations arose out of joint reserve studies. An additional increase of 73.5 MMcf per day in gas purchase obligations has resulted from implementation of Board approved blowdown schemes in the Harmattan-Elkton and Kaybob South fields. A net reduction of approximately 4 MMcf per day is anticipated from solution and deliverability type gas supply following an update of the forecasts of the volumes that Alberta and Southern will be obliged to purchase this year. Also, Alberta and Southern has successfully negotiated with eight producers short-term reductions in takes of approximately 45 MMcf per day from non-associated gas pools currently being produced under deliverability and certain blowdown contracts.

These changes in Alberta and Southern's minimum daily obligations amount to an overall net increase of daily commitment in the amount of approximately 47 MMcf.

As pointed out in prior applications, Alberta and Southern entered into amending agreements with a number of producers (representing in the aggregate a majority of its contracted take-or-pay gas supply) to reduce its obligation to pay for gas not requested or taken during the period July 1, 1980 through June 30, 1982. Under the terms of the amending agreements Alberta and Southern was required to pay for only 25% of any volume of gas which Alberta and Southern would otherwise have been obliged to pay for if available and not taken in the above-noted period. Subsequently, Alberta and Southern and producers representing a majority of its contracted take-or-pay gas supply entered into further agreements to extend the period from June 30, 1982 through to June 30, 1984 during which the obligation to pay for gas not requested or taken was reduced.

On December 12, 1983 Alberta and Southern directed a letter to its producers seeking their approval in regards to certain proposed modifications to the gas sale contract between Alberta and Southern and Pacific Gas Transmission Company ("PGT") and seeking their agreement to negotiate in good faith to make changes to their gas purchase contracts with Alberta and Southern.

Producers providing Alberta and Southern in the aggregate with approximately 68% of its contracted gas supply under take-or-pay contracts have signed the December 12, 1983 letter. Alberta and Southern continues to discuss these matters

with its remaining producers and is confident that a majority of the remaining 32% will sign the letter. Alberta and Southern is currently preparing to discuss specific contract changes with its producers to effect the above-referenced changes and anticipates that the formal documents will be delivered to its producers in the near future.

B. Gas Sale Contracts

The gas sale contracts under which Alberta and Southern sells gas to its five major customers, namely PGT, Canadian-Montana Pipe Line Company ("Canadian-Montana"), Canadian Western Natural Gas Company Limited, Northwestern Utilities Limited and Pan-Alberta Gas Ltd. ("Pan-Alberta"), remain in place.

In 1983 PGT informed Alberta and Southern of the need for further changes in the minimum purchase provisions of the gas sale contract between them. The need for the change in the minimum purchase provisions was due to a combination of factors: the necessity to obtain U.S. regulatory import approval to maintain a long term market for Canadian gas, the necessity to defuse possible legislative action by the U.S. Congress and California state legislature against Canadian gas and similar adverse action by other U.S. federal or state regulatory bodies, and changed conditions in the California market.

Alberta and Southern and PGT subsequently amended the gas sale contract between them to permit, for the period from January 1, 1984 to July 1, 1985, a reduction in PGT's minimum purchase obligations to an annual take-or-pay level of 60 percent of the daily contract quantity set forth in the gas sale contract and a daily minimum take of 40 percent of the daily contract quantity level. In addition, the monthly minimum take obligation previously in effect was eliminated and an annual minimum take obligation of 50 percent of the daily contract quantity was established. For the period from July 1, 1985 through the balance of the contract term, the specific reductions in PGT's minimum purchase obligations will be negotiated. The contract amendment specifies that the original 90 percent annual, 80 percent monthly and 75 percent daily minimum purchase levels will not be reinstated; that the future levels will be lower; that the specific minimum purchase levels to be established will take account of conditions in PG&E's market and the views of Alberta and Southern's producers; and that April 1, 1985 is the date by which the future reductions are to be presented to the National Energy Board of Canada ("NEB"), the Economic Regulatory Administration ("ERA") and the Federal Energy Regulatory Commission ("FERC") for the necessary regulatory approvals. The above-described contract amendment was approved by the NEB, the ERA and FERC and the reductions were effective January 1, 1984.

In the period since the last Application was filed, sales to PGT have been averaging about 59 percent of the previously established daily contract quantity under the gas sale contract (the previously established daily contract quantity being 1,023 MMcf per day), which meets the minimum purchase obligations thereunder. This decline from the system capacity rates can be attributed to Canadian gas not being price competitive, on a weighted average basis, in the California market and to a surplus of U.S. gas supply.

The level of purchases by PGT under its gas sale contract will result in a triggering of PGT's obligation to pay Alberta and Southern for those volumes of gas which it is obliged to request and take (if available) or pay for, but which it has not taken. It is estimated that PGT will be required to pay $69.1 million for such volumes of gas not taken during the contract year ending June 30, 1984.

As pointed out in the last Application, by letter dated December 21, 1982 Canadian-Montana informed Alberta and Southern that it was invoking force majeure under the gas sale contract with Alberta and Southern due to a dramatic decline in the Montana market. Subsequently, Canadian-Montana ceased taking delivery of gas under the gas sale contract at the Cardston delivery point on May 5, 1983. No gas was taken at the Cardston delivery point until December 23, 1983, at which time a total of 185 MMcf was purchased over a period of 22 days when Canadian-Montana required additional gas for peaking purposes.

In October, 1983, Canadian-Montana sent letters to Alberta and Southern's producers explaining the market problems in Montana and requesting that the producers voluntarily waive any accrued and future right to take-or-pay payments from Alberta and Southern for that portion of the producer's natural gas sales to Alberta and Southern which could be attributable to Alberta and Southern's sales to Canadian-Montana. This request was rejected by most of Alberta and Southern's producers.

In January, 1984 Canadian-Montana presented a proposal to Alberta and Southern to resolve the problems resulting from the decline in the Montana market.

Alberta and Southern has reviewed the proposal and, prior to accepting it, will be seeking the concurrence of Alberta and Southern's producers to the proposal.

Since the last Application there have been no amendments to the annual quantity commitments in the gas sale contracts with Canadian Western Natural Gas Company Limited and Northwestern Utilities Limited.

The table on page 10 of the Application dated June 30, 1983 relating to the requests by the Alberta Utilities has been revised and now reads as follows:

YEAR	REQUEST	VOLUMES DELIVERED (Mcf)
1974-75	No Request	20,984,411
1975-76	26,907,850 Mcf	20,234,861
1976-77	Notification of 0 Demand	1,141,623
1977-78	No Request	3,181,613
1978-79	No Request	5,113,013
1979-80	No Request	2,404,040
1980-81	No Request	2,253,188
1981-82	No Request	7,378,966
1982-83	No Request	5,671,900
1983-84	No Request	8,000,000*
1984-85	No Request	

*Estimate

On April 26, 1978 Alberta and Southern entered into a gas sale contract with Pan-Alberta for the sale of up to 200 MMcf of gas per day. Reduced markets for Pan-Alberta gas in the United States have resulted in lower than anticipated sales to Pan-Alberta. It is anticipated that sales for the 1983-84 contract year will be approximately 40% of the minimum annual volume provided under the gas sale contract.

C. Forecasting

Alberta and Southern is still subject to the forecasting difficulties described in its prior Applications. An updated requirements forecast has been used to revise the table on page 11 of the last Application dated June 30, 1983 and the revised table reads as follows:

ACTUAL AND FORECAST SALES VOLUMES
(Bcf/Year @ 14.65 psia)

CONTRACT YEAR	ALBERTA SALES	SPECIAL SALES	PIPELINE FUEL AND COCHRANE SHRINKAGE	CDN. MONTANA	B.C. UTIL-ITIES	WTCL	PGT	TOTAL
1971-72	3.1		21.0	29.9	5.4		376.8	436.2
1972-73	12.3		21.0	32.2	6.4		384.0	455.9
1973-74	23.3		19.9	29.6	5.1	3.2	375.7	456.8
1974-75	26.9	20.1	19.2	29.6	4.6	5.4	366.8	472.6
1975-76	36.4	5.8	19.1	28.3	4.2	4.0	394.8	492.6
1976-77	17.9	0.2	18.0	23.9	5.2	7.3	392.1	464.6
1977-78	19.7	6.1	17.3	17.7	3.5	8.3	375.2	447.3
1978-79	18.8		26.4	27.7	3.4	2.7	362.1	441.4
1979-80	15.6	0.2	32.6	26.9	3.3	1.7	361.3	441.6
1980-81	20.7		23.7	25.9	3.9	0.8	283.1	358.1
1981-82	23.4	14.1	25.4	21.8	7.3		256.9	348.9
1982-83	14.3	32.0	21.7	8.4	4.9	0.0	255.6	336.9
1983-84	17.6	14.2	20.4	2.8*	6.5	0.0	220.5	282.0
1984-85	13.7	13.7	21.5	3.3*	6.0	0.0	221.6	279.8

WTCL - Westcoast Transmission Company Limited

PGT - Pacific Gas Transmission Company

* - For resale to TransCanada Pipelines Limited

III. Anticipated Effect on Producers Receiving Take-or-Pay Payments and on the Alberta Cost of Service

A. Producers

Alberta and Southern continues to adhere to its stated policy of equitable allocation, insofar as practicable, of its purchases among all producers with dry gas contracts.

B. Cost of Service

The inclusion of carrying costs in respect of take or pay payments for the contract year ending June 30, 1984, will result in an increase in each separate cost of service per Mcf for category A and category B gas. The actual amount of the increase in each separate cost of service will depend on the volumes of take-or-pay gas not taken in the contract year ending June 30, 1984, the price paid for same, the interest payable on monies borrowed to make take or pay payments and the date when such gas is recovered. An additional factor is the volume actually taken in subsequent years.

The take-or-pay payments made in respect of the six consecutive contract years ending June 30, 1983 are being financed through the issuance of Alberta and Southern's short term promissory notes. It is intended that the take-or-pay payments in respect of the contract year ending June 30, 1984 will be financed in the same manner.

In order to fairly allocate the carrying costs for the seven contract years ending June 30, 1984, so that those producers who waive the obligation imposed on Alberta and Southern to make take-or-pay payments for the contract year ending June 30, 1984 and repay the monies previously paid to them for gas requested and taken in prior contract years (i.e. producers delivering category E gas) are not paying a share of the proportionately larger carrying costs for those producers who either accept 25% of the payment that they would otherwise be entitled to (i.e. producers delivering category B gas) or receive 100 percent of the entitled payment (i.e. producers delivering category A gas), Alberta and Southern requests that the multi-tiered Alberta cost of service, as modified by this Application, be continued. If the multi-tiered Alberta cost of service is continued the various tiers will differ from each other only by the addition (where applicable) of carrying costs related to the financing of that portion of the take-or-pay payments reduced to 25 percent of the original obligation and by the addition (where applicable) of carrying costs related to the financing of that portion of the take-or-pay payments which have not been so reduced. Further, if the multi-tiered Alberta cost of service is continued, the monthly carrying costs with respect to each category of gas (other than category E gas) will be allocated on the basis of the carrying costs related to the take-or-pay payments made in respect of each such category of gas and on the basis of the volumes of gas actually delivered in each

month during the contract year ending June 30, 1985 by producers who deliver each such category of gas.

Assuming payments for take or pay gas for the contract year ending June 30, 1984 at \$2.48 per Mcf, interest costs of 12.5 percent per annum (approximately the current rate) and the sale of the volumes set out in the table on page 12, the impact on Alberta and Southern's separate costs of service for category A and category B gas commencing August 30, 1984 will be approximately:

(a) 6.5¢ per Mcf (\$2.31 per 10^3m^3) for the continued inclusion of the interest costs payable in respect of the three contract years ending June 30, 1980; plus

(b) 4.0¢ per Mcf (\$1.42 per 10^3m^3) for the continued inclusion of the interest costs payable in respect of 25 percent of the take-or-pay volumes for the three consecutive contract years ending June 30, 1983; plus

(c) 4.5¢ per Mcf (\$1.60 per 10^3m^3) for the inclusion of the interest costs payable in respect of 25 percent of the take-or-pay volumes for the contract year ending June 30, 1984; plus

(d) for category A gas

4.6¢ per Mcf (\$1.63 per 10^3m^3) for the continued inclusion of the interest costs payable in respect of 75 percent of the take-or-pay volumes for the

three consecutive contract years ending June 30, 1983 and for the inclusion of the interest costs payable in respect of 75 percent of the take-or-pay volumes for the contract year ending June 30, 1984.

The above-described impact is set out, _inter_ _alia_, in the table attached as Schedule I to this Application.

It is estimated that for the contract year ending June 30, 1984 the volume of category E gas in respect of which the obligation to make take-or-pay payments will be waived is 0.3 Bcf [8.5 $10^6 m^3$]. The following table sets forth the estimated deficiency volumes and the take-or-pay payments for Category A and Category B gas for the 1983-84 contract year.

Estimated Take-or-Pay Payments
1983-84 Contract Year

Category of Gas	Estimated Deficiency Volumes to be Paid for (Bcf @ 14.65 psia)	Take-or-Pay Payments ($ Million)
A	0	0
B	70.2 [1977.8 $10^6 m^3$]	171.1

The amount that Alberta and Southern has had to borrow in order to make take-or-pay payments has been reduced by:

(a) the receipt of approximately $8.7 million for the contract year ending June 30, 1978 and approximately $1.0 million for the contract year ending June 30, 1982 from Canadian-Montana;

(b) the receipt of approximately $49 million for the contract year ending June 30, 1982 and approximately $61 million for the contract year ending June 30, 1983 from PGT;

(c) the application of the net funds from an approximate $5.3 million "gas storage payment" received from Pan-Alberta in March, 1984 to reduce the amounts previously borrowed; and

(d) the withholding of approximately $28.6 million take-or-pay payments by Alberta and Southern to its producers as a result of Canadian-Montana's failure to meet its 1982-83 contract year minimum purchase obligations and take-or-pay payments to Alberta and Southern.

Canadian-Montana has recovered approximately $4.5 million of its payments to June 30, 1982. PGT will be required to make a further payment for failure to take the minimum annual quantities under its gas sale contract in respect of the 1983-84 contract year. As PGT recovers this gas paid for but not taken, and to the extent that Alberta and Southern is unable to recover same as make up gas under the terms of its gas purchase contracts, the separate costs of service will increase slightly.

IV. Make Up Gas

Alberta and Southern is reasonably confident that it will be able to negotiate the necessary contract amendments and extensions to enable it to take all quantities of make up gas in accordance with its rights under its gas purchase contracts. However, even if Alberta and Southern is unable to take all quantities of make-up gas in accordance with its rights under its gas purchase contracts, Alberta and Southern has reduced its prior financial exposure as a result of the amending agreements entered into with a number of its producers and described previously. The amending agreements provide, inter alia, that in the event full recovery of gas actually paid for but not taken is not achieved during the term of the gas purchase contract, then the producer will:

(a) deliver gas from other fields already under contract to Alberta and Southern to ensure full recovery of the pre-paid gas; or

(b) dedicate to Alberta and Southern gas reserves from other sources; or

(c) on the 60th day next following the last day of the last contract year of the gas purchase contract, pay to Alberta and Southern an amount of money equal to the total amount of money paid by Alberta and Southern for the pre-paid gas that has not then been recovered.

V. Common Stream Buying Agreements with TransCanada

It should be noted that, for administrative reasons, Alberta and Southern has made arrangements with TransCanada Pipe-Lines Limited ("TransCanada") for common stream buying in two fields where Alberta and Southern has contracted for a small percentage of field production. In both these fields annual take-or-pay payments are calculated and paid on the basis of TransCanada's contract year (i.e. November 1 to October 31). The amount paid out by Alberta and Southern under these arrangements constitutes a small fraction of its total take-or-pay payments (in respect of the period ending December 31, 1983 the amount was $1.6 million) and for the purpose of this Application such amounts are included in the figures given for the Alberta and Southern contract year.

Alberta and Southern entered into agreements with Trans-Canada and producers at the Westerose South and Homeglen-Rimbey fields to purchase blowdown gas. Deliveries of blowdown gas commenced on November 1, 1982. Because of the commitment to request maximum daily volumes of gas under these contracts, Alberta and Southern is currently recovering pre-paid gas from these producers.

VI. Other Matters

Alberta and Southern extends an invitation to the Commission to meet with its personnel to review developments since the previous Application and to discuss in greater detail the request for the continuation of the multi-tiered Alberta cost of service.

WHEREFORE Alberta and Southern respectfully submits that the Commission approve Alberta and Southern's Application.

DATED at the City of Calgary in the Province of Alberta, this 29th day of June 1984.

Respectfully submitted,

ALBERTA AND SOUTHERN GAS CO. LTD.

By: ______________________
Secretary

Communications relative to this Application should be directed to:

Alberta and Southern Gas Co. Ltd.
24th Floor, East Tower, Esso Plaza
425 First Street S.W.
Calgary, Alberta
T2P 3L8

Alberta and Southern Gas Co. Ltd.

Category	Take-or-Pay Advances: Amount $	Take-or-Pay Advances: Percentage (%)	Carrying cost @ 12.5%: Common $	Carrying cost @ 12.5%: 75% Excess to Non-signatory producers $	Carrying cost @ 12.5%: Total $	Estimated purchases July 1/84 - June 30/85: Volume (Bcf)	Estimated purchases July 1/84 - June 30/85: Percentage (%)	Unit Cost of Service: Common (¢/mcf)	Unit Cost of Service: Incremental (¢/mcf)
1981/82/83/84 Advances									
A						.5	.18	15.0	4.6
- Other	487,600	.130	7,750	23,240	30,990				
B						279.2	99.82	15.0	-
- Signatory 1981-1984	374,940,800	99.870	23,810,860	-	23,810,860				
	375,428,400	100.000%	23,818,610	23,240	23,841,850	279.7	100.00%		
E - Refund all advances	-	-	-	-	-	.1		-	-
1978/79/80 Advances	144,629,400		18,078,680	-	18,078,680				
Total	520,057,800		41,897,290	23,240	41,920,530	279.8			

Receipts from export customers (actual plus projected for 1984 contract year)

- PGT	179,520,800
- Canadian-Montana	5,172,800
	184,693,600

Net Advances

- 1978/79/80	144,629,400
- 1981/82/83/84	190,734,800
	335,364,200

Alberta PETROLEUM MARKETING COMMISSION

1900, 250 - 6th Avenue S.W., Calgary, Alberta, Canada T2P 3H7 Telex 03-821978 (403) 262-8808

September 28, 1984

INFORMATION BULLETIN RE ALBERTA COST OF SERVICE

The Alberta Cost of Service Information Bulletin for the month of August, 1984 is attached.

The Information Bulletin consists of:

1. Copies of any special Orders or Determinations issued by the Commission during the month with respect to Alberta Cost of Service, and notice of any Statements of Objection which have been received during the month; and

2. Alberta Cost of Service Determinations for the month.

In the case of gas intended to be removed from Alberta, the cost of service determined under Section 11(1), 15(3)(a) and 15(5)(b)(i) of the Natural Gas Pricing Agreement Act for each month is based on estimated figures for that month, adjusted to allow for differences between the estimated and actual figures for the previous month.

In the case of gas intended for consumption within Alberta, the amount estimated as cost of service under Sections 11(2)(a)(ii) and 15(3)(b)(i) of the Act were made under the Commission's general directive for the Alberta cost of service.

All determinations are on gross or higher heating value on a dry basis at 15°C and an absolute pressure of 101.325 kPa (kilopascal).

Yours very truly,

ALBERTA PETROLEUM MARKETING COMMISSION

D. L. Willis
Vice-Chairman

Attachment

INFORMATION BULLETIN
ALBERTA COST OF SERVICE DETERMINATION
PURSUANT TO THE NATURAL GAS PRICING AGREEMENT ACT
MONTH OF AUGUST, 1984

Section 15(3)(a)	Cents Per Gigajoule (GJ)*
Alberta and Southern Gas Co. Ltd.	
- Category A	53.338
- Category B	48.378
- Category E	43.316
Canadian Montana Pipe Line Company	85.766
Canadian Montana Gas Company Limited	85.789
Consolidated Natural Gas Limited	41.039
ICG Resources Ltd.	41.780
Many Islands Pipe Line (Canada) Limited	
- Purchased Gas	41.657
- North Sibbald (Agent)	N/A
- Saddle Lake	30.540
- Esther	8.434
Pan-Alberta Gas Ltd.	
- Basic	34.689
- Delivery Points - Lloydminster "A"	66.102
- Bay Tree	47.798
Progas Limited	22.229
Simplot Chemical Company, Ltd.	33.192
Societe quebecoise d'initiatives petrolieres (SOQUIP)	42.350
Sulpetro Limited	38.897
TransCanada PipeLines Limited	
- Average(1)	67.570
- Category A	68.733
- Category B1B2	68.514
- Category B1B3	74.663
- Category B1D2	64.081
- Category D1B2	37.006
- Category D1B3	42.889
- Category D1D2	32.387
- Category E	43.055
Westcoast Transmission Company	
- Husky Oil Ltd.	22.940
- Petrogas Processing Ltd. et al	28.986
Westcoast Transmission Company (Alberta) Limited	
- North	32.524
- Triassic E	.474

Section 15(3)(b) 30.000

.../2

Notes

* Calculated on a gross and dry heating value basis at 101.325 kpa (kilopascal) and 15^{o}C.

Notice

The price adjustment for gas is $0.42/GJ
The Alberta Border Price is $2.798 04/GJ

(1) For purposes of sales within Alberta

NOTICE

The Alberta Petroleum Marketing Commission hereby advises that the Alberta cost of service for Canadian Montana Gas Company Limited which was indicated as 77 727. ¢/GJ in the Information Bulletin for the month of July, 1984 should read 77.727 ¢/GJ.

Alberta
PETROLEUM MARKETING COMMISSION

1900, 250 - 6th Avenue S.W.
Calgary, Alberta, Canada T2P 3H7 (403) 262-8806

Alberta PETROLEUM MARKETING COMMISSION

DETERMINATION 84-25 (SIM)
ALBERTA COST OF SERVICE
NATURAL GAS PRICING AGREEMENT ACT

APPLICATION

By application dated April 1, 1984 Simplot Chemical Company Ltd. (Simplot) requests an Alberta cost of service. The application, without exhibits, and additional information dated 1984-07-25 are attached as Appendix "A".

DECISION

1. Rate base shall consist of inventory gas valued at the Alberta border price.

2. Deferred cost as applied for is denied.

3. The rate of return on rate base shall be the Royal Bank of Canada prime rate of interest in effect from time to time.

4. The Alberta cost of service components shall consist of:

   a) Consulting Fees by Pan-Alberta Resources Inc.

   b) Permit Usage Fees by Pan-Alberta Gas Ltd.

   c) Simplot's allocated operating costs.

   d) Transportation charges by Nova, An Alberta Corporation.

   e) Return on rate base.

5. The above shall be effective April 1, 1984.

REASONS

The Commission considers the items, as listed under paragraph 4 of the decision, to be appropriate for inclusion in the Alberta cost of service under Section 2 of the Natural Gas Pricing Agreement Act.

The Commission notes that inventory gas arising from monthly variations or imbalances between the amounts of gas received from producers and delivered to customers represents a temporary investment in natural gas which can be either positive or negative in value and is therefore recognized as a component of rate base.

The Commission has not allowed the unit Alberta cost of service to exceed the Alberta border price and therefore recognizes that cost deferrals may become necessary at times. The Commission does not anticipate any cost deferrals in this case and accordingly, has excluded this item from Alberta cost of service approval at this time. Nonetheless, should cost deferrals be warranted in the future, the Commission will review the matter at the time of the monthly Alberta cost of service application.

The rate of return on rate base at bank prime rates, as applied for by Simplot, is considered to be reasonable.

DATED THIS 31 day of August, 1984 at Calgary, Alberta.

W. Murray Smith
Secretary

0616F

SIMPLOT CHEMICAL COMPANY, LTD.

Application to the Alberta Petroleum Marketing Commission requesting approval to file and have determined an Alberta Cost of Service

April 1, 1984

Prepared on behalf of Simplot by Pan-Alberta Resources Inc.

(Contact: J. Lawton, Consultant, 1-403-234-6615)

INDEX

SIMPLOT CHEMICAL COMPANY, LTD.

Statement of Request:

Simplot Chemical Company, Ltd. ("Simplot") has contracted for the purchase of natural gas from producers within the Province of Alberta for delivery of such gas to it's fertilizer plant in Brandon, Manitoba.

Simplot requests approval from the Commission to file and have determined a monthly Alberta Cost of Service which will include costs and charges incurred that are attributable to the acquisition, movement, metering and processing to cause the gas to become marketable or that are otherwise related to the supply of the gas within Alberta.

The requested approval should recognize a April 1, 1984 project commencement date.

SIMPLOT CHEMICAL COMPANY, LTD.

Reason for Request:

The Natural Gas Pricing Agreement Act provides for the regulation of natural gas prices. The components that comprise the purchase price for original buyers of gas "intended to be removed from Alberta" are:

The Alberta Border Price
Less:
The Alberta Cost of Service
Plus:
The Border Price Adjustment
Equals:
The Regulated Field Price

Simplot has specific responsibilities as an original buyer, one of which is the requirement to apply monthly to the Commission for determination of an Alberta Cost of Service. In order to comply with this requirement Simplot wishes by this application to first ensure the Commission is made aware of the particulars associated with this project and second to request approval to file and have determined a monthly Alberta Cost of Service.

SIMPLOT CHEMICAL COMPANY, LTD.

Anticipated Cost of Service Components:

With the Commission's approval the components of Cost of Service will include:

Schedule	Component
1	Pan-Alberta Resources Inc. consulting fees
2	Pan-Alberta Gas Ltd. permit usage fees
3	NOVA, AN ALBERTA CORPORATION transportation charges
4	In-house operating costs
5	A return on rate base
6	Deferred costs (If applicable)
7	Alberta sales adjustment

We have supplied proforma annual Cost of Service calculations based on volumes of 282.0 10^3m^3/day (10,600 GJ/day @ 37.43 MJ/m^3) being the anticipated volumes contracted for removal from Alberta under both the Permit Usage Agreement and the Consultant Operator Agreement with Pan-Alberta Gas Ltd. and Pan-Alberta Resources Inc., respectively.

SIMPLOT CHEMICAL COMPANY, LTD.

Projected Annual Alberta Cost of Service

Details	Schedule	
Operating Level:		
Annual Purchases (GJ) (1)		3,869,000
Cost of Service:		
Pan-Alberta Resources Inc. - consultant fees	1	$ 162,000
Pan-Alberta Gas Ltd. - permit usage fees	2	154,800
NOVA, AN ALBERTA CORPORATION - transportation charges	3	1,081,000
In-house operating costs	4	6,000
Return on rate base	5	--
Deferred costs	6	--
Alberta sales adjustment	7	--
Total		$1,403,800
Per Unit Cost of Service ($/GJ)		.363

(1) 282.0 $10^3 m^3$/day x 37.43 MJ/m^3 = 10,600 GJ/day x 365 days = 3,869,000 GJ/year.

Effect on Third Parties:

The major beneficiaries of maintaining marketing activities for natural gas are the producers and the Province of Alberta.

SIMPLOT CHEMICAL COMPANY, LTD.

Effect on Simplot:

Approval of this application would enable Simplot to meet its responsibilities as an original buyer for gas "intended to be removed from Alberta" and provide for the regulatory vehicle to recover costs attributable to its original buyer activities within Alberta.

Supporting
Schedule 1

SIMPLOT CHEMICAL COMPANY, LTD.

Consulting Fees

Simplot has entered into a Consultant Operator Agreement ("COA") with Pan-Alberta Resources Inc. ("PARI") dated 1983 10 12 (see Appendix A), under which PARI will provide consulting, operating and administrative services in connection with coordinating the ordering, transportation, delivery and arranging for Alberta removal permit capacity for the Simplot gas. Upon the initiation of deliveries at the points of delivery specified under the agreement the monthly fee payable by Simplot to PARI will be $13,500. (The monthly fee will be adjusted each year by a factor equal to the percentage change in the Implicit Price Deflator for Gross National Expenditure, Published Quarterly in Statistics Canada Catalogue, 13-001, National Income and Expenditure Accounts, System of National Accounts.)

Supporting
Schedule 2

SIMPLOT CHEMICAL COMPANY, LTD.

Permit Usage Fees

Simplot, pursuant to a Permit Usage Agreement dated 1983.11.07 (see Appendix B) with Pan-Alberta Gas Ltd. ("Pan-Alberta") has contracted for the utilization of Pan-Alberta's gas removal permits PA 80-3 and/or PA 81-4, to facilitate the removal of Simplot's gas from the Province.

Simplot has contracted to pay Pan-Alberta 4¢ per gigajoule for all of Simplot's gas removed from Alberta at the permit removal point named in the removal permits. (The fee will be adjusted annually by a factor equal to the percentage change in the Implicit Price Deflator for Gross National Expenditure, Published Quarterly in Statistics Canada Catalogue, 13-001, National Income and Expenditure Accounts, System of National Accounts.)

Forecast:

10,600 GJ/day x $.04/GJ x 365 days = $154,800/year

SIMPLOT CHEMICAL COMPANY, LTD.

Transportation Charges

Simplot has made application to and received confirmation from NOVA, AN ALBERTA CORPORATION ("NOVA") for the T-5 export service rate on all volumes of gas received from contracted collection points and delivered to the Alberta/Saskatchewan border for removal from the province.

If T-5 export volumes are displaced for in-Alberta usage NOVA will charge the T-3 service rate ($\$.53/10^3m^3$) for all such volumes at the delivery point.

Forecast:

Assuming the maximum annual Alberta removal of 102,930.0 10^3m^3 (282.0 10^3m^3/day) and a $\$10.50/10^3m^3$ T-5 service rate the annual NOVA transportation charge will be:

$$102,930.0\ 10^3m^3 \times \$10.50/10^3m^3 \times 365 = \$1,081,000$$

Supporting
Schedule 4

SIMPLOT CHEMICAL COMPANY, LTD.

In-House Operating Costs

Simplot will incur certain in-house costs related to the verification of PARI performed activities and certain administrative duties not provided for under the COA.

The methodology proposed to segregate costs between Simplot's other activities and its Alberta original buyer activities will involve allocation of office rental costs, office supply costs, allocated employee benefit costs and salary costs based on actual employee time charged to the project. Time so charged will be costed and its percentage of the total company salary costs will become the allocation percentage to be applied against the above mentioned cost elements. Any direct project costs will be allocated on an as incurred basis.

The anticipated annual in-house operating costs are approximately $6,000 ($500/month).

SIMPLOT CHEMICAL COMPANY, LTD.

Return on Rate Base

Proposed Practice

(1) Rate Base

Simplot proposes to include the following component in its rate base:

(a) Inventory:

Inventories represent temporary investments in natural gas which can be either positive or negative in value. The Alberta Border Price as it exists from time to time is used to determine the value of the inventory investment.

The gas inventory valued for rate base purposes arises from monthly variations or imbalances between the amounts of gas that are received from Producers and delivered to Customers. These variations are primarily caused by differences between nominations placed and actual receipts or deliveries. Simplot will not be allocated "line pack" gas within the NOVA system.

Due to the unpredictable nature of inventories Simplot has not attempted to include such amounts in a proforma rate base calculation.

(Please note that essentially Simplot would have no working capital requirement as costs are recovered as paid. The carrying costs recovered for cost deferrals is in lieu of a working capital allowance but only to the extent that such deferrals exist.)

(2) Capitalization

Simplot proposes to adopt a total debt capital structure for return purposes.

(3) Rate of Return

Simplot submits that a rate of return should provide for the recovery of a company's debt costs. Simplot's investment will be totally debt funded by way of floating prime based bank loans.

In order to recognize the variable nature of the debt financing Simplot would propose to calculate its return on rate base each month using the actual prime rate in effect.

Supporting
Schedule 7

SIMPLOT CHEMICAL COMPANY, LTD.

Deferred Costs

The potential exists that Simplot may purchase little or possibly no gas in a given month. This could be the result of producer force majeure, plant turn-arounds or start-up problems. Recognizing that certain of Simplot's costs will be incurred regardless of the actual operating level a situation might occur where the per unit cost of service is in excess of the Alberta Border Price. Consequently, Simplot would be unable to recover a portion of, or in fact any of, its Alberta Cost of Service.

Simplot therefore requests approval to first defer recovery of such costs to that subsequent month when sufficient purchases are available to allow recovery and second to recover the associated carry- ing costs calculated at the prime rate in effect from time to time at the Royal Bank.

The method proposed to administer these deferrals is as follows:

- all costs pertaining to the cost of service period in question would be reported as required. Simplot would enter the following adjustments on Line 18 of the monthly cost of service submission:

(i) if the current month costs divided by the current month purchases results in a per unit Alberta Cost of Service in excess of the prevailing Alberta Border Price ("ABP"), then a credit adjustment sufficient to eliminate such excess will be processed. The credit adjustment amount will be aggregated with prior month cost

deferrals, if any, and will be recovered together with the associated carrying costs, in succeeding month Alberta Cost of Service submissions.

(ii) if the current month costs divided by the current month purchases results in a per unit Alberta Cost of Service which is less than the prevailing ABP, then prior month deferrals will be added to the current month costs to the extent that they do not cause the resulting unit Alberta Cost of Service to exceed the ABP.

Deferrals would be outstanding only until sufficient purchases were available to satisfy the ABP criteria at which time they would be fully recovered.

Supporting
Schedule 7

SIMPLOT CHEMICAL COMPANY, LTD.

Alberta Sales Adjustment

Simplot will report an Alberta Sales Adjustment component in its cost of service recognizing the unrecovered cost of service associated with any sales within Alberta at less than the Alberta Border Price. No attempt has been made to forecast the magnitude of the adjustment in our proforma calculations.

Respectfully submitted by
Simplot Chemical Company, Ltd.

Don Pottinger

Don Pottinger,
Vice-President and
General Manager

Simplot

SIMPLOT CHEMICAL COMPANY, LTD.

P.O. BOX 940, BRANDON, MANITOBA, CANADA R7A 6A1 TELEPHONE (204) 728 5701 / TELEX 07-502758

1984.07.25

The Alberta Petroleum Marketing
Commission
Attention: Mr. V. Thomas
General Manager, Natural Gas
1900, 250 - 6th Avenue S.W.
Calgary, Alberta
T2P 3H7

Dear Sir:

Re: Simplot Chemical Company, Ltd. (Simplot)
Application for an Alberta Cost of Service (ACOS)

In response to your letter dated, July 11, 1984 we submit the following with regard to the handling of the items listed below:

- start-up fee of $27,000
  Simplot's intent here is to recover this amount from their partners at the Dunkirk River area. Therefore, it will not appear as an ACOS item.

- stand-by fee of $9,000
  This item will be included as an ACOS item since it simply represents a cost related to the services performed on Simplot's behalf by Pan-Alberta Resources Inc., prior to the movement of gas.

- termination fee of $81,000
  This item is no longer an issue since it was predicated on the possibility of gas not moving by August 1, 1984. (pursuant to section 3.2)

- monthly consulting fee of $13,500
  This is an ongoing charge incurred by Simplot in recognition of the services performed on their behalf by Pan-Alberta Resources Inc. and will be included in the monthly ACOS submissions.

RECEIVED
AUG - 2 1984
ALBERTA PETROLEUM
MARKETING COMMISSION

If you have any questions concerning the above, please contact Mr. Vince Landry of Pan-Alberta Resources Inc. at 234-6614.

Yours truly,

SIMPLOT CHEMICAL COMPANY, LTD.

Don Pottinger

Mr. D. Pottinger
Vice President and
Resident Manager
0763F.3

Alberta PETROLEUM MARKETING COMMISSION

DETERMINATION 84-26 (TCP)
ALBERTA COST OF SERVICE
NATURAL GAS PRICING AGREEMENT ACT

APPLICATION

By application dated August 28, 1984 TransCanada PipeLines Limited (TransCanada) requests approval for the inclusion in Alberta cost of service of carrying costs incurred to finance purchases of gas to be stored in Ontario storage facilities.

The application is attached as Appendix "A".

DECISION

The application is denied.

REASONS

The acquisition of gas for purposes of storage in Ontario has traditionally been undertaken by eastern Canadian distributors in the ordinary course of their business. The Commission believes that this storage function should continue to be the distributor's responsibility in determining natural gas requirements for their market area.

In the Commission's opinion it cannot be determined with reasonable assurance that additional storage would represent an increase in TransCanada's markets during the 1984/85 winter season.

Accordingly, the Commission is not convinced that any portion of costs related to this function should be transferred to TransCanada's producers through the inclusion of such costs in Alberta cost of service.

DATED THIS 14th day of September, 1984 at Calgary, Alberta.

W. Murray Smith
Secretary

APPENDIX "A"

PROVINCE OF ALBERTA

ALBERTA PETROLEUM MARKETING COMMISSION

Application to the Alberta Petroleum Marketing Commission (the "Commission") by TransCanada PipeLines Limited ("TransCanada") to allow the inclusion in TransCanada's Alberta Cost of Service of carrying costs associated with financing the purchase by TransCanada of certain volumes of gas to be delivered to certain Ontario storage facilities for sale in Eastern Canadian markets.

<u>Request</u>:

TransCanada requests that the Commission determine that there shall be included in TransCanada's Alberta Cost of Service carrying costs incurred by TransCanada during the period of October 25, 1984 to February 20, 1985 which are associated with financing the purchase by TransCanada of up to 8 Bcf of natural gas from its Alberta producers during the months of September and October of 1984. Such gas will be delivered by TransCanada to Ontario storage facilities of Union Gas Company of Canada Ltd., ("Union") and sold prior to February 1, 1985 into Eastern Canadian markets.

<u>Proposed purchase of storage gas</u>

TransCanada delivers and sells gas purchased by TransCanada in Alberta to Eastern utilities for consumption in their market areas in Eastern Canada. During the summer months, a portion of the gas is purchased by these companies in excess of their market requirements

and placed in storage in order to meet the peak load requirements of Eastern Canadian markets during the winter months.

Union has advised TransCanada that though there will likely be a need for full storage over the 1984/85 winter, it is not in a position to pay for 8 Bcf of storage gas. TransCanada proposes to deliver 8 Bcf of natural gas to Union for placement in storage facilities, such gas to be paid for as it is required by Ontario consumers. Union has indicated that TransCanada would not be required to pay storage fees in connection with this gas. If Eastern Canada experiences cold winter weather, the stored gas would be utilized by Eastern Canadian markets in the months of November and December, 1984 and January, 1985 and would avoid the curtailment of certain interruptible industrial customers. Maintaining gas sales to such interruptible industrial customers would result in additional sales of Alberta gas. In the event that a warm winter resulted in such additional sales not being made, the gas would, in effect, be a pre-delivery of Alberta gas.

Benefit to Alberta producers

In assessing the situation, TransCanada identifies the following benefits to its Alberta producers:

1. The proposal will increase the gas sales of TransCanada's Alberta gas producers in September and October of 1984 by approximately $24 million.

2. In the event of cold winter weather in Eastern Canada, the sale of some or all of the 8 Bcf of storage gas for consumption by interruptible industrial customers during such weather would represent an increase in TransCanada's markets.

3. If TransCanada does not deliver 8 Bcf of gas to Ontario storage, that storage space could possibly be filled by other suppliers, with the result that TransCanada's producers would lose market to the extent of 8 Bcf. By utilizing the storage, TransCanada retains a market for its producers.

Financing the purchase of storage gas

If, under normal circumstances, TransCanada takes delivery of gas from Alberta producers in a particular month, TransCanada receives payments for the gas from its customers and pays the producer for the gas delivered on the 25th day of the next month. TransCanada pays the producer the Alberta Border Price plus the price adjustment for the gas, after deduction of its Alberta Cost of Service as allowed by the Commission. In the present instance however, the gas delivered by a producer is stored and not paid for by TransCanada's customers prior to the 25th day of the month succeeding production and, therefore

TransCanada will not receive funds from the sale of the gas in time to pay the producer for his production or to recover its Alberta Cost of Service.

TransCanada must, therefore, finance the payment to the producer until such time as TransCanada receives payment for the gas held in storage by Union. TransCanada will be required to finance approximately $24 million, being the cost of 8 Bcf of gas calculated at the Alberta Border Price of $2.79804/GJ. No ex-Alberta transportation costs will be included in the amounts to be financed. In view of the unique short-term circumstances, TransCanada intends to finance the purchase of the storage gas at the prime rate of Canadian banks.

The financing of this storage gas would be outstanding over a period commencing October 25, 1984, when TransCanada would make the first payments to producers for the storage gas, and ending not later than February 20, 1985.

Impact on TransCanada's Alberta cost of service

Assuming the current prime rate of 13%, TransCanada estimates that the carrying cost associated with the purchase of the storage gas will be $900,000. This amount would be recovered through the TransCanada Alberta Cost of Service over the period of October, 1984 to February, 1985. TransCanada estimates that such a recovery would increase the

Alberta cost of service for each of these months by approximately .16¢/GJ. In the event that the gas is taken earlier than January, 1985, these costs would be proportionately lower.

Jurisdiction of the Commission

TransCanada submits that the carrying costs of financing the purchase of storage gas are costs to TransCanada "attributable to the acquisition of gas by the original buyer" and allowable for inclusion in TransCanada's Alberta cost of service pursuant to s. 2(1)(a) of the Natural Gas Pricing Agreement Act. TransCanada also submits that, as such costs are directly related to securing the Eastern Canadian markets during the 1984/85 winter months, those costs are "costs incurred by the original buyer for developing markets for gas produced in Alberta" and allowable for inclusion in TransCanada's Alberta cost of service pursuant to s. 5.1(1)(b) of Alta. reg. 127/77, as amended by Alta reg. 119/82.

Conclusion

TransCanada submits that the proposal described herein could represent a benefit to its gas producers. TransCanada submits that it serves Alberta's interests to assure that the total working storage in Ontario is fully utilized for availability to the Eastern Canadian markets. TransCanada submits that it is therefore appropriate that TransCanada recover the carrying costs associated with the purchase of

this storage gas, as described herein, through its Alberta Cost of Service. TransCanada requests the Commission to determine that, during the period commencing on October 25, 1984 and ending not later than February 20, 1985, there shall be included in TransCanada's Alberta Cost of Service the carrying costs incurred by TransCanada in order to finance the purchase from its producers of up to 8 Bcf of gas to be stored in Ontario storage facilities.

All of which is respectfully submitted, this 28th day of August, 1984.

TRANSCANADA PIPELINES LIMITED

per:
E.W.H. Mallabone
Manager, Legal

All communications regarding
this application should be
directed to:

Mr. E.W.H. Mallabone
Manager, Legal
TransCanada PipeLines Limited
TransCanada PipeLines Tower
530 - 8th Avenue S.W.
Calgary, Alberta
T2P 3V6

82.1.323

CANADIANA

NOV 21 1984

Alberta PETROLEUM MARKETING COMMISSION

1900, 250 - 6th Avenue S.W., Calgary, Alberta, Canada T2P 3H7 Telex 03-821978 (403) 262-8808

October 31, 1984

INFORMATION BULLETIN RE ALBERTA COST OF SERVICE

The Alberta Cost of Service Information Bulletin for the month of September, 1984 is attached.

The Information Bulletin consists of:

1. Copies of any special Orders or Determinations issued by the Commission during the month with respect to Alberta Cost of Service, and notice of any Statements of Objection which have been received during the month; and

2. Alberta Cost of Service Determinations for the month.

In the case of gas intended to be removed from Alberta, the cost of service determined under Section 11(1), 15(3)(a) and 15(5)(b)(i) of the Natural Gas Pricing Agreement Act for each month is based on estimated figures for that month, adjusted to allow for differences between the estimated and actual figures for the previous month.

In the case of gas intended for consumption within Alberta, the amount estimated as cost of service under Sections 11(2)(a)(ii) and 15(3)(b)(i) of the Act were made under the Commission's general directive for the Alberta cost of service.

All determinations are on gross or higher heating value on a dry basis at 15°C and an absolute pressure of 101.325 kPa (kilopascal).

Yours very truly,

ALBERTA PETROLEUM MARKETING COMMISSION

D. L. Willis
Vice-Chairman

Attachment

INFORMATION BULLETIN
ALBERTA COST OF SERVICE DETERMINATION
PURSUANT TO THE NATURAL GAS PRICING AGREEMENT ACT
MONTH OF SEPTEMBER, 1984

Section 15(3)(a)	Cents Per Gigajoule (GJ)
Alberta and Southern Gas Co. Ltd.	
- Category A	48.071
- Category B	43.444
- Category E	34.739
Canadian Montana Pipe Line Company	69.909
Canadian Montana Gas Company Limited	122.997
Consolidated Natural Gas Limited	42.306
ICG Resources Ltd.	63.552
Many Islands Pipe Line (Canada) Limited	
- Purchased Gas	47.230
- North Sibbald (Agent)	7.855
- Saddle Lake	28.308
- Esther	13.084
Pan-Alberta Gas Ltd.	
- Basic	35.322
- Delivery Points - Lloydminster "A"	66.735
- Bay Tree	46.551
Progas Limited	25.202
Simplot Chemical Company, Ltd.	38.103
Societe quebecoise d'initiatives petrolieres (SOQUIP)	45.945
Sulpetro Limited	29.726
TransCanada PipeLines Limited	
- Average(1)	69.818
- Category A	71.392
- Category B1B2	70.744
- Category B1B3	76.899
- Category B1D2	66.228
- Category D1B2	37.585
- Category D1B3	43.780
- Category D1D2	32.818
- Category E	52.464
Westcoast Transmission Company	
- Husky Oil Ltd.	29.446
- Petrogas Processing Ltd. et al	29.612
Westcoast Transmission Company (Alberta) Limited	
- North	36.186
- Triassic E	.474

Section 15(3)(b)	30.000

.../2

Notes

* Calculated on a gross and dry heating value basis at 101.325 kpa (kilopascal) and 15°C.

Notice

The price adjustment for gas is $0.46/GJ
The Alberta Border Price is $2.798 04/GJ

(1) For purposes of sales within Alberta

NOTICE

Alberta PETROLEUM MARKETING COMMISSION

EFFECTIVE NOVEMBER 5, 1984

OUR NEW SWITCHBOARD TELEPHONE NUMBER WILL BE
(403) 297-5500

OUR ADDRESS REMAINS UNCHANGED AT
1900, 250 Sixth Avenue S.W.
Calgary, Alberta T2P 3H7

OUR TELEX NUMBER REMAINS UNCHANGED AT
03-821978

OUR TELECOPIER NUMBER REMAINS UNCHANGED AT
(403) 263-8144

Alberta
PETROLEUM MARKETING COMMISSION

1900, 250 - 6th Avenue S.W.
Calgary, Alberta, Canada T2P 3H7

DETERMINATION 84-27 (TCP)
ALBERTA COST OF SERVICE
NATURAL GAS PRICING AGREEMENT ACT

APPLICATION

By application dated August 24, 1984, TransCanada PipeLines Limited (TransCanada) requests that the Commission modify the rate of return on rate base and allowance for cash working capital used in determining TransCanada's Alberta cost of service in accordance with the Decision of the National Energy Board dated July, 1984. The application (except for Exhibit D) is shown in the attached Appendix A.

DECISION

1. TransCanada's rate of return on rate base for Alberta cost of service shall be 14.53%.

2. The allowance for cash working capital in TransCanada's Alberta cost of service shall be equal to one-twelfth of the annual cash operating expenses in Alberta excluding the cost of purchased gas.

3. The above shall be effective August 1, 1984.

REASONS

The Commission has in the past taken into account decisions made by other regulatory bodies exercising jurisdiction over transmission companies operating both within and without the Province of Alberta when such decisions have been consistent with Alberta law and Commission policies relating to Alberta cost of service. The Commission has reviewed the National Energy Board's Reasons for Decision and considers a 14.53% rate of return on rate base and the allowance for cash working capital at one-twelfth of the annual cash operating expenses to be appropriate for Alberta cost of service. The composition of the rate of return is shown as follows:

.../2

	Ratio (%)	Cost Rate (%)	Cost Component (%)
Debt - Funded	55.09	14.94	8.23
Unfunded	1.94	14.25	.28
Total Debt Capital	57.03		8.51
Preferred Share Capital	12.97	10.54	1.37
Common Equity	30.00	15.50	4.65
Total	100.00		14.53

DATED THIS 1st day of October, 1984 at Calgary, Alberta.

W. Murray Smith
Secretary

APPENDIX "A"

IN THE MATTER OF AN APPLICATION

by TransCanada PipeLines Limited

to the Alberta Petroleum Marketing Commission

to modify the rate of return on rate base

in TransCanada PipeLines Limited's

Alberta Cost of Service

August 1984

REQUEST

TransCanada PipeLines Limited (TransCanada) hereby applies to the Alberta Petroleum Marketing Commission (the Commission) for approval to modify the rate of return on rate base and allowance for cash working capital used in determing TransCanada's Alberta cost of service in accordance with the Decision of the National Energy Board (NEB) dated July, 1984.

In its Decision, the NEB allowed TransCanada to earn a 14.53% rate of return on rate base based on a deemed capitalization. A 15.50% return on a deemed common equity of 30% is included as a cost component in the approved rate of return. The NEB also approved an allowance of one-twelfth of the annual cash operating expenses in the rate base as cash working capital. A copy of the NEB Decision which includes Orders No's. RH-1-84, AO-1-RH-1-84, AO-2-RH-1-84, TG-5-84 and TG-6-84 and the Reasons for Decision are attached as Exhibit "D" hereto. The pertinent information in the Reasons for Decision a) referring to the rate of return, is included under Chapter 3, page 12 through to and including page 24, b) referring to the cash working capital, is included under Chapter 2 pages 9 and 10.

PRESENT PRACTICE

The previous rate of return on rate base approved by the NEB, which has been employed in calculating TransCanada's Alberta cost of service, was 14.00%. This rate has been effective from September 1, 1983 to July 31, 1984. TransCanada currently uses an allowance of one-eleventh for cash working capital.

The Commission, by Determination 83-08 (TCP) dated 1983-10-06 accepted and approved the rate of return as set by the NEB.

The previous and present capital structures of TransCanada, approved by the NEB, are shown in Appendix V of the Reasons for Decision.

REASONS FOR THE REQUEST

The principles and methods which have been applied in the determination of TransCanada's Alberta cost of service, other than NOVA, An Alberta Corporation charges, are consistent with those approved by the NEB in establishing TransCanada's transmission tariff.

In prior determinations, the Commission has taken into account decisions made by the NEB providing such decisions were consistent with requirements of the Natural Gas Pricing Agreement Act or Commission policies relating to Alberta cost of service.

If a component of TransCanada's cost of service were to be allocated by the NEB to the transmission tariff on a basis which is different from the basis of allocation used by the Commission, this inconsistency would result in TransCanada obtaining more or less than its reasonable and necessary costs.

It is submitted that TransCanada adduced substantial evidence of its particular needs and circumstances at a public hearing held before the NEB in the months of April and May 1984. The producers, who were fully

represented at this hearing, cross-examined TransCanada extensively and submitted their own rebuttal evidence. The NEB thus had before it the full evidence and representations of TransCanada, the producers and other intervenors concerning TransCanada's particular needs and circumstances and the interests of the producers and other intervenors. The NEB considered and weighed this evidence and these representations in reaching its conclusions.

In view of these facts, TransCanada requests that this NEB Decision be applied uniformly in order to avoid unnecessary duplication of the regulatory process and unwarranted gains or losses to TransCanada.

ANTICIPATED EFFECT ON TRANSCANADA'S ALBERTA COST OF SERVICE

The higher rate of return approved by the NEB will result in an estimated increase to TransCanada's Alberta cost of service (return component Line 8 per "Exhibit "A") of approximately $715,548 during the twelve month period ending July 31, 1985. The detailed calculations and assumptions are shown in Exhibits "A", "B" and "C".

Dated at the City of Calgary, in the Province of Alberta this 24 day of August, 1984.

Respectfully submitted
TRANSCANADA PIPELINES LIMITED

By:
E.W.H. Mallabone
Manager, Legal

Communications related to this
Application should be directed to:

Mr. E.W.H. Mallabone
Manager, Legal
TransCanada PipeLines Limited
P.O. Box 500
Calgary, Alberta
T2P 2M7

EXHIBIT "A"
TO APPLICATION OF TRANSCANADA PIPELINES LIMITED
TO MODIFY THE RATE OF RETURN ON RATE BASE
IN TRANSCANADA PIPELINES LIMITED'S
ALBERTA COST OF SERVICE

TransCanada PipeLines Limited
Effect on Alberta Cost of Service
Twelve month period commencing August, 1984

Line No.	Particulars	Previous	Proposed (A)
1	Rate of Return Cost Component	%	%
2	Total Debt Capital	8.48	8.51
3	Preferred Share Capital	1.32	1.37
4	Common Equity	4.20	4.65
5	Overall Rate of Return (Appendix V)	14.00	14.53
		$	$
6	Average Rate Base (Exhibit "B")	135,009,000	135,009,000
7	Return on Rate Base	18,901,260	19,616,808
8	Total increase in return component	$715,548	

(A) As authorized by the NEB in Exhibit "D".

EXHIBIT "B"
TO APPLICATION OF TRANSCANADA PIPELINES LIMITED
TO MODIFY THE RATE OF RETURN ON RATE BASE
IN TRANSCANADA PIPELINES LIMITED'S
ALBERTA COST OF SERVICE

TransCanada PipeLines Limited
Estimated Return on Alberta Rate Base
Twelve Months Ending July 31, 1985

Month (a)	(1) Net Plant and Cash Working Capital $ (b)	(1) Line Pack $ (c)	(1) Storage $ (d)	Take Or Pay $ (e)	Total Rate Base $ (f)
August, 1984	8 120 000	9 834 000	50 063 000	62 586 000	130 603 000
September	8 120 000	9 834 000	55 427 000	62 436 000	135 817 000
October	8 120 000	9 834 000	56 321 000	62 286 000	136 561 000
November	8 120 000	9 834 000	56 321 000	62 136 000	136 411 000
December	8 120 000	9 834 000	56 321 000	61 986 000	136 261 000
January, 1985	8 120 000	9 834 000	56 321 000	61 836 000	136 111 000
February	8 120 000	9 706 000	55 587 000	61 686 000	135 099 000
March	8 120 000	9 706 000	55 587 000	61 536 000	134 949 000
April	8 120 000	9 706 000	55 587 000	61 386 000	134 799 000
May	8 120 000	9 706 000	55 587 000	61 236 000	134 649 000
June	8 120 000	9 706 000	55 587 000	61 086 000	134 499 000
July	8 120 000	9 706 000	55 587 000	60 936 000	134 349 000
					1 620 108 000
Average Rate Base					135 009 000

(1) Detailed calculations and assumptions are illustratedin Exhibit "C".

EXHIBIT "C"
TO APPLICATION OF TRANSCANADA PIPELINES LIMITED
TO MODIFY THE RATE OF RETURN ON RATE BASE
IN TRANSCANADA PIPELINES LIMITED'S
ALBERTA COST OF SERVICE

Assumptions

1. Line pack remains constant at 4 400 000 GJ.

2. Average monthly cash working capital - 2 160 000.

   Average monthly cash plant assets - 5 960 000.

3. Estimated underground storage volumes.

Month	Heat Content GJ(MM)	Month	Heat Content GJ(MM)
August, 1984	22.4	February,1985	25.2
September	24.8	March	25.2
October	25.2	April	25.2
November	25.2	May	25.2
December	25.2	June	25.2
January, 1985	25.2	July	25.2

4. The heating value of underground storage gas is 39.6 MJ per m^3 (1058 Btu per cubic foot).

5. Value of underground storage gas and line pack is as follows:

   August 1/84 to January 31/85 - ¢ 223.495/GJ
   February 1/85 to July 31/85 - ¢ 220.582/GJ

6. Take or Pay Consists of:

   1. Outstanding Balance for TransCanada of $44 822 000.00
   2. Topgas and Topgas Two set-up costs of $17 764 000.00 in August 1984, decreasing by $150 000 per month.

7. No Rate Base Effect has been projected for any Take or Pay incurred during the 1983/84 Contract Year.

NOTE:
Assumes Border Price Estimates - Aug/84 to July/85 - ¢ 279.804/GJ
Assumes Average Alberta Cost of Services Estimates
- Aug/84 to Jan/85 - ¢ 56.309/GJ
- Feb/85 to July/85 - ¢ 59.222/GJ

DETERMINATION 84-28
ALBERTA COST OF SERVICE
NATURAL GAS PRICING AGREEMENT ACT

REVIEW OF STATEMENT OF OBJECTION

On August 3, 1984, Amoco Canada Petroleum Company Ltd. (herein called the "Applicant") filed a statement of objection to Determination 84-18 (TCP) of the Alberta Petroleum Marketing Commission (herein called the "Commission") for TransCanada PipeLines Limited (herein called "TransCanada"). The statement of objection is attached as Appendix "A".

The Commission elected to review the statement of objection and directed the Applicant to place a notice of the objection in two consecutive issues of "The Herald" in Calgary and "The Journal" in Edmonton, on or before August 24, 1984 and to serve a copy on the Canadian Petroleum Association and Independent Petroleum Association of Canada on or before August 21, 1984.

TransCanada and Hamilton Brothers Canadian Gas Company Ltd. filed separate submissions with respect to the statement of objection which are attached as Appendix "B" and Appendix "C" respectively.

DECISION

Determination 84-18 (TCP) is affirmed.

REASONS

The Commission has reviewed the statement of objection and submissions received from interested parties and finds that no evidence has been provided that was not previously considered by the Commission in Determination 84-18 (TCP).

DATED THIS 2nd day of October, 1984 at Calgary, Alberta.

W. Murray Smith

W. Murray Smith
Secretary

IN THE MATTER OF ALBERTA PETROLEUM MARKETING COMMISSION DETERMINATION 84-18 (TCP) ALBERTA COST OF SERVICE NATURAL GAS PRICING AGREEMENT ACT R.S.A. 1980 c N-4

STATEMENT OF OBJECTION

AMOCO CANADA PETROLEUM COMPANY LTD.

1. Amoco Canada Petroleum Company Ltd. ("Amoco"), is a producer of natural gas in the Province of Alberta and sells natural gas to TransCanada Pipe Lines Limited ("TransCanada").

2. Amoco objects to Determination 84-18 of the Alberta Petroleum Marketing Commission (the "Marketing Commission") which allows TransCanada to combine debt and equity financing of take-or-pay payments with the costs of capital for such financing to be the rate of return on TransCanada's Alberta rate base plus an allowance for income taxes; effective May 1, 1984.

3. Amoco believes that the method of financing adopted by TransCanada and approved by the Marketing Commission under Determination 84-18 results in excessive carrying costs in TransCanada's cost of service for the producers in Categories B_1 B_3 and D_1 B_3 and those in Category E.

   Under the approved method of financing of 60% debt, 12% preferred equity and 28% common equity, it is stated in TransCanada's application dated February 29, 1984, that the carrying costs on capital required to meet the 51.3 million dollars of take-or-pay payments will approximate 18.88% (page 3 of the testimony of Gordon S. Lackenbauer). This rate is compared to the cost of capital (100% debt financing) for prepayments under the Topgas arrangements which is established at the prime rate plus 7/8 of

one percent. Consequently, due to the different methods of financing used by TransCanada, the producers not participating in Topgas and/or Topgas Two will bear a proportionately higher cost of service than those who are participating in Topgas and Topgas Two. In Amoco's opinion this divergence results in unfair penalties for those producers who would not accept either or both Topgas or Topgas Two.

The testimony of both TransCanada experts as contained in its application is directed at a financing package that gives the greatest benefit to TransCanada. The debt/equity financing permits TransCanada to retain financing flexibility for other pipeline operations and still maintain its creditworthiness. Unfortunately, there is no regard for the effect of such a financing package on the increase in cost of service and the concomitant ever-diminishing net-back to the producer that is created by such a scheme. TransCanada argues that since greater risks are involved in recouping the prepayments made to the non-Topgas Two producers, a greater equity portion of the capital structure necessary to finance the same is required, but ignores the fact that when TransCanada entered into these obligations it assumed such risks. It is contended that it would be unfair to "burden TransCanada's distribution customers or the ultimate consumers of gas" with the cost of such prepayments, but somehow it is all right to burden the producer with increased costs that result from a financing which is less exacting on TransCanada's credit rating.

4. For the reasons outlined in paragraph 3 of this Statement of Objection, Amoco submits that Determination 84-18 results in an excessive and discriminatory charge being levied against the TransCanada cost of service borne by the producers in Categories B_1 B_3 and D_1 B_3 and those in Category E. In order to remedy this inequity Amoco proposes that the Marketing Commission revise

Determination 84-18 to restrict TransCanada from including in its cost of service financing charges that would be in excess of prime plus 7/8 of one percent on the capital required to make take-or-pay payments to Category B_1 B_3 and D_1 B_3 producers and Category E producers.

5. Notices and communications in respect of this Statement of Objection may be sent to:

   Amoco Canada Petroleum Company Ltd.
   444 - 7th Avenue S.W.
   Calgary, Alberta,
   T2P OY2
   Attn: Phil Unland, Manager Gas Sales

Dated at the City of Calgary in the Province of Alberta this 3rd day of August, 1984.

Amoco Canada Petroleum Company Ltd.

per: N.J. Stewart

N.J. Stewart
Vice President,
Marketing and Corporate Affairs

IN THE MATTER of the Natural Gas Pricing Agreement Act and regulations thereunder, and

IN THE MATTER of the Alberta cost of service of TRANSCANADA PIPELINES LIMITED ("TransCanada"); and

IN THE MATTER of ALBERTA PETROLEUM MARKETING COMMISSION ("the Commission") and a Statement of Objection therefrom, dated August 3, 1984 filed with the Commission by Amoco Canada Petroleum Company Ltd. ("Amoco").

SUBMISSION OF TRANSCANADA PIPELINES LIMITED

Pursuant to Section 6(5) of the Natural Gas Pricing Agreement Regulations (Alberta Regulation 127/77, as amended), TransCanada files this submission in response to the Statement of Objection filed by Amoco with respect to the Commission's Determination 84-18 (TCP).

Amoco's Statement of Objection does not advance any evidence with respect to the cost of financing 1982/83 prepayments to those producers who declined to participate in the Topgas Two program and therefore adds nothing to the material submitted by TransCanada to the Commission in its application of February 29th, 1984. That application was a complete and comprehensive presentation of the situation and facts surrounding the subject of the application. As no matters have since come to TransCanada's attention which would require modification or variation of the contents of the application, TransCanada limits its submissions herein to the following comments on matters raised by Amoco in its Statement of Objection.

1. TransCanada confirms that Amoco sells gas to TransCanada under 52 gas purchase contracts (other than solution gas contracts) which are Seller's Gas Purchase Contracts under the 1982 Topgas Agreement among Amoco, TransCanada and Topgas Holdings Limited. Amoco declined to enter into the Topgas Two Agreement with TransCanada, Topgas and Topgas Two Inc.

2. Volumes of gas delivered by Amoco under these 52 contracts are assessed Alberta cost of service under Category B_1 B_3 of TransCanada's Alberta cost of service. Amoco is not, however, a party to any gas purchase contracts with TransCanada which are presently included in either Category D_1 B_3 or Category E of TransCanada's Alberta cost of service and, accordingly, Amoco has no interest in those categories. TransCanada submits that Amoco has no standing to bring before the Commission any matters in respect of Category D_1 B_3 or Category E.

3. Because of unanticipated market reductions during the 1982/83 contract year, TransCanada incurred additional prepaid gas valued at approximately $365 million. When this became evident, TransCanada and its financial advisors determined that, due to the long interim period before recovery of such prepaid gas and the requirement that such prepaid gas be recovered only after full obligation deliveries, it

would not be prudent to acquire the capital to make such prepayments without undertaking equity financing. TransCanada developed a new arrangement with the Topgas syndicate that was offered to all of its Topgas producers whereby TransCanada's 1982/83 take or pay obligation could be financed by Topgas Two Inc. on a basis consistent with the previously implemented Topgas arrangment and thereby eliminate the need for an equity component. This was identified in TransCanada's letter to all of its producers of November 15, 1983 in which it was noted that a Topgas like arrangement was "the most cost efficient method" of making the 1982/83 prepayments. Moreover, in a series of meetings with Amoco at the executive level, the purpose of which from TransCanada's standpoint was to attempt to secure Amoco's participation in the Topgas Two Program, it was explained at length and in detail the reasons why the financing of prepayments by TransCanada outside of the Topgas Two program was necessarily more costly than the financing which was available through Topgas Two Inc. As a result of such meetings, TransCanada was left with the strong impression that Amoco fully understood the reasons surrounding the necessity for the utilization of conventional utility financing of the 1982/83 prepayments.

Amoco and certain other producers, representing in total approximately 7% of TransCanada's supply, declined to enter into the Topgas Two program. Producers representing 93% of TransCanada's supply entered into the Topgas Two program.

By declining the Topgas Two program, Amoco received 1982/83 prepayments directly from TransCanada and unlike the Topgas Two participants, Amoco is now entitled to retain the prepaid funds without recovery by TransCanada for approximately 10 years.

TransCanada submits, therefore, that Amoco voluntarily undertook the "burden" of the increased costs with full knowledge and full "regard for the effect of such a financing package on the increase in cost of service ..."

4. Amoco suggests that the financing put in place by TransCanada and allowed under Determination 84-18 creates "unfair penalties," and is an "excessive and discriminatory charge" against Amoco which creates "the greatest benefit to TransCanada." As detailed in TransCanada's application of February 29, 1984, prepayments made by TransCanada outside the Topgas Two program and under the original Topgas program may only be recovered by TransCanada after full recovery by Topgas of Topgas Prepaid Gas and then only after nomination by TransCanada for

full obligation in each contract year. Such recovery may not commence until the latter part of the 1994/95 contract year and may then only be completed over an additional 5 year term. As TransCanada explained to Amoco and others, this delayed recovery and postponement to the recovery rights of Topgas, results in the increased risk of non-recovery of the prepaid asset and in order to maintain financial integrity and to finance in accordance with sound principles, it became necessary to undertake financing which included an equity component. TransCanada's application of February 29th explains in detail the costs to TransCanada of such financing. The determination by the Commission of TransCanada's costs with respect to the 1982/83 Amoco prepayments is neither "unfair", "excessive", "discriminatory" nor a penalty to Amoco, nor a "benefit" to TransCanada. It simply allows a recovery by TransCanada of the cost incurred in maintaining a long term asset of which Amoco has the long term benefit.

5. In paragraph 4 of its Statement of Objection, Amoco proposes that it be assessed the costs of its prepayments at a rate which should not exceed the rate of Prime plus 7/8 of one percent as allowed in Determination 83-09(TCP) to the participants in the Topgas Two program. The rate for financing under the Topgas Two program became available only because producers under that program agreed to:

(i) reduce the possibility of future take or pay by reducing the take or pay floor under their contracts;

(ii) allow recovery of the 1982/83 prepayments from their allocated share of future gas deliveries;

(iii) allow the recovery of the 1982/83 prepayments over a term commencing in November of 1984 and concurrently with the recovery of Topgas prepayments; and

(iv) allow adjustment to the maximum day relief provisions of the Topgas Agreement to realistic operational levels.

By agreeing to each of these amendments, the Topgas Two participants reduced the level of risk associated with the 1982/83 prepayments such that the banking syndicate which financed the Topgas Two program were prepared to advance funds at the rate of Prime plus 7/8 of one percent. Amoco, on the other hand, by not agreeing to these Topgas Two amendments, retained a higher take or pay level, and because of the equitable take provisions under the original Topgas agreement to which Amoco is a party, has an enhanced prospect of receiving take or pay payments in future years. In addition, Amoco has the use of 1982/83 prepayments over a substantially longer term, is able to deliver full obligation volumes before delivery of the 1982/83 prepaid gas and has more advantageous maximum day relief rights. TransCanada submits that it would indeed be "unfair" and

"discriminatory" if Amoco, having retained advantages given up by the Topgas Two participants, was now able to have the benefit of a financing rate which could not have been available without the concessions agreed to by the Topgas Two participants.

All of which is respectfully submitted at the City of Calgary, in the Province of Alberta, this 13th day of September, 1984.

TRANSCANADA PIPELINES LIMITED

Per:
E.W.H. Mallabone
Manager, Legal

Communications related to this
Submission should be directed to:

TransCanada PipeLines Limited
P.O. Box 500
530 - 8th Avenue S.W.
Calgary, Alberta
T2P 3V6
Attention: E.W.H. Mallabone
Manager, Legal

IN THE MATTER OF THE NATURAL GAS PRICING AGREEMENT ACT, R.S.A. 1980, c.N-4 AND THE REGULATIONS THEREUNDER

AND IN THE MATTER OF ALBERTA PETROLEUM MARKETING COMMISSION DETERMINATION 84-18 (TCP)

SUBMISSION OF
HAMILTON BROTHERS CANADIAN GAS COMPANY LTD.

1. Hamilton Brothers Canadian Gas Company Ltd. ("Hamilton") is a producer of natural gas in the Province of Alberta and sells natural gas to TransCanada Pipelines Limited ("TransCanada").

2. Hamilton has received and reviewed the Statement of Objection dated August 3, 1984 submitted by Amoco Canada Petroleum Company Ltd. ("Amoco") to the Alberta Petroleum Marketing Commission ("APMC"), which constitutes objection to APMC Determination 84-18 for the various reasons set forth in such Statement of Objection.

3. As a producer selling natural gas to TransCanada, Hamilton is an interested party in respect of Amoco's Statement of Objection.

4. Hamilton adopts the objections given by Amoco in its Statement of Objection for the reasons set forth therein and supports Amoco in urging the APMC to revise Determination 84-18 to restrict TransCanada from including in its cost

of service financing charges that would exceed prime plus 7/8% on the capital required to make take or pay payments to producers with categories $B_1 B_3$, $D_1 B_3$ and E of TransCanada's cost of service.

5. Notices and communications in respect of this Submission may be sent to:

HAMILTON BROTHERS CANADIAN GAS COMPANY LTD.
3900 First Canadian Centre
350 - 7th Avenue S.W.
CALGARY, Alberta
T2P 3N9

Attention: B.E. HANWELL

DATED at the City of Calgary, in the Province of Alberta this 12th day of September, 1984.

ALL OF WHICH IS RESPECTFULLY SUBMITTED,

D.B. Grant

DAVID B. GRANT,
Vice-President, Exploration
HAMILTON BROTHERS CANADIAN GAS
COMPANY LTD.

DETERMINATION 84-29(CNG)
ALBERTA COST OF SERVICE
NATURAL GAS PRICING AGREEMENT ACT

APPLICATION

By application dated February 7, 1984, and by letter dated May 8, 1984, Consolidated Natural Gas Limited (Consolidated) has applied to the Commission to include interest costs in its Alberta cost of service on take or pay payments made by TransCanada PipeLines Limited (TransCanada) to Consolidated for gas not taken during the 1982/83 contract year.

Consolidated requests that the Commission determine that from January 10, 1984 and continuing until TransCanada is able to implement permanent financing for payments made to Consolidated in respect of Consolidated's obligation to pay its producers for Future Prepaid Gas, and other take or pay gas incurred by Consolidated during the 1982/83 contract year, it shall be just and reasonable to include and there shall be included in Consolidated's Alberta cost of service, the interest costs of TransCanada arising as a result of interim financing obtained in respect of such payments by TransCanada at the rate of the Canadian Imperial Bank of Commerce prime rate plus 7/8%.

The application is attached as Appendix "A".

DECISION

The application is granted.

REASONS

The Commission considers that these financing costs qualify under the Natural Gas Pricing Agreement Regulation (A.R. 119/82) as being "... considered just and reasonable by the Commission in respect of costs incurred by a person, whether or not the person is an original buyer, to finance payments made to or for the benefit of a producer in respect of gas not taken by the original buyer under a gas sales contract for which the producer was nevertheless entitled to be paid."

DATED this 22nd day of October, 1984 at Calgary, Alberta.

W. Murray Smith
Secretary

PROVINCE OF ALBERTA

ALBERTA PETROLEUM MARKETING COMMISSION

APPLICATION TO INCLUDE TRANSCANADA PIPELINES LIMITED'S INTEREST COSTS IN RESPECT OF THE FINANCING OF FUTURE PREPAID GAS IN CONSOLIDATED NATURAL GAS LIMITED'S ALBERTA COST OF SERVICE

I. Request

Consolidated Natural Gas Limited ("Consolidated") requests that the Alberta Petroleum Marketing Commission (the "Commission") determine that from January 10, 1984 and continuing until TransCanada PipeLines Limited ("TransCanada") is able to implement permanent financing for payments made to Consolidated in respect of Consolidated's obligation to pay its producers for Future Prepaid Gas (as defined below), and other take or pay gas incurred by Consolidated during the 1982/83 contract year, it shall be just and reasonable to include and there shall be included in Consolidated's Alberta cost of service, the interest costs of TransCanada arising as a result of interim financing obtained in respect of such payments by TransCanada at the rate of the Canadian Imperial Bank of Commerce prime rate plus 7/8%.

II. The Topcon Program

In August of 1983, TransCanada, Topcon Holdings Alberta Limited ("Topcon"), Consolidated and Consolidated's participating producers entered into an agreement (the "Topcon Agreement") which provided for a program (the "Topcon Program") whereby Topcon made certain advances to the producers in respect of take or pay gas and the producers agreed to accept an equitable

allocation of that portion of the TransCanada market which is supplied under Consolidated's gas purchase contracts. Additionally, the producers agreed that Consolidated would not be required to take or pay for gas above a level which is 60% of the 1981/82 minimum annual obligation under each particular Consolidated gas purchase contract. The Topcon Program and the background thereto was described in detail in Consolidated's application to the Commission dated June 2, 1983.

During the 1982/83 contract year, and as a result of reduced takes of gas by TransCanada under its gas purchase contract with Consolidated (the "1972 Agreement"), Consolidated incurred an obligation to pay those of its producers who participated in the Topcon Program a total of $4,451,941.78, representing 2 026 899 gigajoules of natural gas, in respect of gas not taken by Consolidated during the 1982/83 contract year (termed "Future Prepaid Gas"). Pursuant to the provisions of the 1972 Agreement, TransCanada advanced these funds to Consolidated who subsequently paid its producers for such Future Prepaid Gas on January 10, 1984.

In addition, and in respect of two gas purchase contracts which were not included in the Topcon Program, Consolidated incurred an obligation during the 1982/83 contract year to pay for gas not taken to the extent of $1,133,421.58, representing 516 029 GJ of natural gas. Pursuant to the provisions of the 1972 Agreement, TransCanada advanced these funds to Consolidated who subsequently paid its producers on January 10, 1984 for take or pay gas incurred under those two contracts.

III. TransCanada Financing

By application to the Commission dated December 19, 1983, TransCanada advised the Commission of its intention to finance the payment of TransCanada Prepaid Gas (as referred to therein) on an interim basis and at the interest rate of the Canadian Imperial Bank of Commerce prime rate plus 7/8% until such time as it could conclusively quantify the payments outstanding in respect of TransCanada Prepaid Gas. TransCanada proposed to apply to the Commission in early 1984 for a determination in respect of permanent long term financing appropriate for the long recovery term associated with the TransCanada Prepaid Gas.

TransCanada has advised Consolidated that it anticipates that the financing of payments to Consolidated in respect of Future Prepaid Gas, as referred to above, and in respect of the take or pay gas arising outside the Topcon Program, as referred to above, will also be carried by TransCanada on an interim basis at the interest rate of the Canadian Imperial Bank of Commerce prime rate plus 7/8%, and that TransCanada intends that the long term financing of such payments will be obtained together with the long term financing which it will implement with respect to 1982/83 TransCanada Prepaid Gas.

TransCanada has advised Consolidated that it anticipates that it will secure such long term financing before the end of April, 1984, and that such financing will be in effect from the end of that month. TransCanada has indicated that it will provide Consolidated with the particulars of

such financing in order that Consolidated may make a further application to the Commission for the inclusion of TransCanada's interest costs in respect of the permanent financing of Consolidated's 1982/1983 take or pay payments in Consolidated's Alberta cost of service.

IV. Conclusion

Consolidated respectfully requests that the Commission determine that from January 10, 1984, and continuing until TransCanada has implemented permanent financing for payments made to Consolidated in respect of Consolidated's obligation to pay for Future Prepaid Gas incurred during the 1982/1983 contract year and other prepaid gas incurred during the 1982/1983 contract year, it shall be just and reasonable to include and there shall be included in Consolidated's Alberta cost of service the interest costs of TransCanada arising as a result of interim financing obtained in respect of such payments by TransCanada at the rate of the Canadian Imperial Bank of Commerce prime rate plus 7/8%.

Dated at the City of Calgary, in the Province of Alberta, this 7th day of February, 1984.

All of which is respectfully submitted

CONSOLIDATED NATURAL GAS LIMITED

W. J. DEMCOE
Vice President, Finance and Secretary

CONSOLIDATED NATURAL GAS LIMITED

Suite 1600, 333 - 11th Avenue S.W., Calgary, Alberta T2R 1L9

Telephone (403) 263-8040, Telex 038-25524

May 8, 1984 File #3607-10

Alberta Petroleum Marketing Commission
1900, 250 - 6th Avenue S.W.
Calgary, Alberta T2P 3H7

Attention: Mr. V. M. Thomas
General Manager, Natural Gas

Dear Mr. Thomas:

Re: Consolidated Natural Gas Limited (Consolidated) application dated February 7, 1984 for the inclusion of take or pay interest costs for the 1982/83 contract year in Consolidated's Alberta Cost of Service - Docket Number 84-10

Consolidated forwarded a copy of your letter dated February 17, 1984 to TransCanada PipeLines Ltd. (TransCanada) and requested that TransCanada respond to the matters contained therein.

TransCanada forwarded to Consolidated a copy of their letter dated February 29, 1984 to the Alberta Petroleum Marketing Commission (the Commission) wherein they respond to the same matters addressed in the Consolidated letter.

Consolidated has reviewed the TransCanada letter and presents a copy herewith as response to your request for clarification and information dated February 17, 1984 on the above noted application.

Any further inquiries in regard to this matter can be directed to the undersigned.

Very truly yours

C.A.J. Harvey
Chief Accountant

/pt
Encl.

TransCanada PipeLines
TRANSCANADA PIPELINES TOWER 530 EIGHTH AVENUE S.W
P.O. BOX 500, STATION M, CALGARY, CANADA T2P 3V6
(403) 269 5611

1984-02-29

Alberta Petroleum Marketing Commission
1900, 250 - 6th Avenue S.W.
Calgary, Alberta
T2P 3H7

Attention: V.M. Thomas
General Manager, Natural Gas

Dear Sir:

TransCanada confirms receipt of your letter of February 10, 1984, requesting certain clarifications of the matters raised in TransCanada's application to the Commission dated January 16, 1984 (docket number 84-06). TransCanada responds to the questions contained therein as follows:

1. <u>How does TransCanada propose to raise interim financing for its "TransCanada Prepaid Gas" and its prepayments under Category E Contracts?</u>

In December, 1983, TransCanada applied to the Commission for a determination that would allow TransCanada to include in its Alberta Cost of service a charge for the cost of capital associated with "TransCanada Prepaid Gas" and prepayments outstanding under Category E contracts. At that time, TransCanada was not in a position to know the actual amount of such payments and therefore the method of

.../2

permanent financing which would be required to support such payments. It was recognized, however, that the Company's marginal overall pre-tax cost of capital was in excess of 18%. In view of the proposed second Closing under the Topgas Two program and as an interim accommodation to producers who had not yet participated in the program, TransCanada used a rate of prime plus 7/8% (or 11 7/8% at the time). As TransCanada anticipated that a number of producers would execute the Topgas Two Agreements between the first and second Closings of Topgas Two, this rate was proposed for use during that period as a rate equivalent to the rate being charged to the producers who had already signed Topgas Two. In fact, as of the date of this letter, producers representing an additional 8% of TransCanada's contracted supply by volume or approximately $30.4 million of prepayments, will participate in the March 1 Closing. TransCanada anticipates that, on March 1, there will be outstanding $51.3 million in respect of take or pay gas for which long-term financing will be required. The cost of this long-term financing will be directly "tracked" to sub-category B_3 and Category E. The analyses by Dr. Sherwin and Mr. Lackenbauer, which are attached hereto, confirm that TransCanada's marginal cost of long-term capital at the end of 1983 was greatly in excess of prime and 7/8%.

2. What is the cost of this interim financing to TransCanada?

Long-term assets that are being financed by TransCanada are designated as utility and non-utility assets and the financing supporting these assets can be directly identified with respect to long-term debt and preferred shares. This "tracking" has been done in connection with NEB proceedings. However, TransCanada does not "track" the cost of short-term funds or common equity to any specific asset. Such funds and equity constitute a common pool which can only be attributed to specific assets by discretionary allocation techniques. This is due to the fact that profits, and hence cash flow of an equity nature are being generated by TransCanada daily. The primary concerns are the amount of profit created during any given period and to which assets and in what proportions should such equity be allocated. The same considerations arise with respect to short-term debt. With respect to the present situation and for the reasons above stated, TransCanada concluded that a temporary accommodation was in order and that a rate of prime plus 7/8% would be appropriate.

Though TransCanada can borrow at prime under its general lines of credit and below prime under its commercial paper program (although,

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at year end 1983, the commercial paper program had achieved maximum level), TransCanada believes that it is not appropriate to allocate one specific source of short-term funds to one specific asset because these funds become intermingled with short-term deposits. The point can be supported very simply by stating that on December 30, 1983, TransCanada had approximately $200 million on deposit in its accounts. These funds would not be deemed to be zero cost capital or equity cost capital by TransCanada. The answer lies somewhere in between: it is average cost capital and as such is considerably in excess of the prime plus 7/8% being used by TransCanada as an accommodation to producers during the period prior to the implementation of permanent financing.

3. <u>Please provide the Commission with assurance that the financing proposed by TransCanada is at the lowest cost that it could obtain. If the cost of financing obtained by TransCanada was not the lowest available to it, should the Commission be aware of any special circumstances that has led TransCanada to propose it?</u>

From TransCanada's point of view there is really no specific financing. The rate put forward in the application is, as explained above, a significant and substantial accommodation to producers over

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an interim term and, for the reasons previously given, the lowest rate available. TransCanada takes the position that interim financing should not be tracked to a specific asset and therefore, prior to the implementation of the long-term financing of the asset, TransCanada is charging an interim rate which is much lower than its average cost of long-term capital. TransCanada could raise short-term funds at a rate lower than prime plus 7/8% but it takes the position that it is not appropriate to track that specific rate to a specific asset.

We trust the foregoing is satisfactory.

Yours very truly

TRANSCANADA PIPELINES LIMITED

Per: ______________________
E.W.H. Mallabone
Manager, Legal

EXHIBIT "A"

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<u>TransCanada Pipelines Limited</u>

Testimony

of

<u>Stephen F. Sherwin</u>

Q. Please state your name, profession, and employment.

A. My name is Stephen F. Sherwin. I am an economist and Executive Vice President of Foster Associates, Inc., an economic consulting firm whose principal office is located at 1101 Seventeenth Street, Northwest, Washington, D.C. 20036. A summary of my qualifications appears in Appendix A.

Q. Before which Canadian Boards have you previously presented evidence?

A. I have presented evidence on the fair rate of return and capital structure before the Public Utility Boards of Alberta (for three subsidiaries of Canadian Utilities, Ltd.), British Columbia (for Pacific Northern Gas and West Kootenay Power & Light), Manitoba (for Greater Winnipeg Gas), and Quebec (Gaz Metropolitain and Gazifere Inc.); the Ontario Energy Board (for Consumers' Gas, Union Gas, and Tecumseh Gas Storage); the National Energy Board

(for Interprovincial Pipe Line, TransCanada PipeLines, Trans-Northern Pipe Line, Trans-Quebec and Maritimes, and Westcoast Transmission); and the Canadian Radio-Television and Telecommunications Commission (for Bell Canada).

Q. What is the purpose of your evidence?

A. In connection with its applications to the Alberta Petroleum Marketing Commission to recover through its Alberta cost of service the costs of financing its 1981/82 and 1982/83 take or pay obligations, TransCanada PipeLines Limited (TCPL) has asked me to express an opinion on (1) the appropriate capital structure for the financing of take-or-pay related prepayments of approximately $51.3 million made directly by TCPL to producers, and (2) the appropriate return on such prepayments.

Q. What are your conclusions?

A. I recommend a return of 13.38%, plus an appropriate allowance for income taxes, based on the following:

	Capital Structure	Cost Rates	Cost Component
Debt	60.0%	13.5%	8.10
Equity	40.0	13.2	5.28
TOTAL	100.0%		13.38%

The recommended capital structure is similar to that used by the National Energy Board for TCPL's utility operations. The debt

rate of 13.5% reflects the current rate at which TCPL can raise long-term debt; the equity rate of 13.2% represents the following weighted average cost:

Preferred stock	12.0%	@	9.0% =	1.08
Common Equity	28.0%	@	15.0% =	4.20
	40.0%			5.28

The preferred stock rate reflects the current market rate; the common stock proportion and cost rate conform to the NEB's decision of June 1983. The weighted common stock cost component should track future NEB decisions.

The above recommendations are made in full awareness that the bulk of the take-or-pay prepayments -- made by Topgas Holdings Limited ("TOPGAS") and Topgas Two Inc. ("Topgas Two") -- are presently treated in the Alberta cost of service as being entirely debt financed, and that the TCPL's prepayments made in earlier years were treated as being financed only by debt and by debt and preferred stock.

My grounds for recommending a balanced capital structure with a 60/40 debt/equity ratio are essentially that TCPL's prepayments represent non-income-producing assets for which the recovery probably will not commence for 10 years. No utility can finance assets without equity, and no utility should finance additional assets without a commensurate equity component. The long-term nature of TCPL's prepayments entails inherent uncertainties,

which require a substantial equity cushion to avoid an adverse impact on TCPL's ability to finance other assets.

Q. Please summarize your understanding of the prepayments made under TCPL's take-or-pay provisions.

A. The $51.3 million prepayment represents approximately $6.5 million outstanding under Category E contracts at the end of 1983, and $44.8 million relating to the 1982/83 contract year (Categories B_1B_3 and D_1B_3). A synopsis of the origins of these payments may help to focus on the salient issues.

As a result of a substantial supply-demand imbalance in gas markets during the last six years, TCPL began making annual payments on take-or-pay obligations in 1977. By 1982, these payments aggregated $1.0 billion. In the early years, the payments were treated as debt financed, essentially because a rapid make-up was expected. In later years, as the sums escalated, the payments were financed by debt and preferred stock.

The prospect of further escalating payments prompted TCPL to negotiate an initial reduction in minimum annual gas takes for the 1980/81 and 1981/82 contract years from 100% to 80%, and to offer a further reduction in the take-or-pay floor to the lesser of 60% of TCPL's original minimum annual obligation for the 1981/82 contract year, or 75% of TCPL's minimum annual take obligation for a particular contract year. Under this plan,

recovery of the prepaid gas commences in the 1984/85 contract year, and extends over 10 years, subject to acceleration if market demand increases.

A major feature of this plan was the creation of Topgas Holdings Limited -- controlled by a consortium of Canadian banks -- to assume all of TCPL's prepayment obligations incurred through to the end of the 1981/82 contract year, amounting to $2.3 billion. Of this sum, TCPL was reimbursed for $1.0 billion paid in earlier years, and an additional payment of $1.3 billion was made directly to producers which represented payment for gas not taken during the 1981/82 contract year up to the 100% obligation level as well as payment for the 20% of the 1980/81 obligation initially waived by producers. The initial Topgas arrangement provided for an equity backstop by TCPL, in the form of (1) a $300 million principal guarantee and (2) a reimbursement guarantee to the bank of all carrying costs.

Virtually all the producers (99.9%) accepted the Topgas proposal. Under five contracts, which were not included in Topgas, $6.5 million was paid out by TransCanada at the end of 1982.

During the 1982/83 contract year, TCPL's takes of gas declined further to approximately 48% of minimum annual contract volumes, resulting in additional take-or-pay obligations. This prompted TCPL to propose Topgas Two, providing for payments for gas not

taken during that contract year and a further reduction in further contract years of the take-or-pay obligations from 60% to 50% of the 1981/82 annual contract volumes, with the proviso that in future years the minimum level would move between 50% and 60%, depending on levels of take in the immediately preceding two years. The make-up period for Topgas Two is the same as for Topgas.

Approximately (90%) of the producers accepted the Topgas Two proposal and received $307 million. TCPL provided an additional equity backstop guarantee amounting to $55 million, and again incurred reimbursement obligations for carrying costs. TransCanada paid approximately $48.8 million to producers under contracts which were not included in Topgas Two. The earliest possible date for the commencement of make-ups is 1990; the expected make-up period is 1994-98.

From a financial-risk point of view, several aspects should be noted.

1. While the Topgas arrangements alleviated a potential financial squeeze on TCPL, they did not free the company of a residual obligation. Thus, TCPL's equity bears the ultimate risk of the Topgas and Topgas Two principal payments up to $355 million. While this represents only 13% of the total Topgas and Topgas Two debt, the amount stays constant over the entire make-up period. Thus, as the make-up volume

reduces the banks' exposure, TCPL's equity backstop becomes a rising proportion of debt financing undertaken by the banks.

2. The time period for the "make-up" is longer for the Category B_1B_3 and D_1B_3 contracts ($44.8 million) than for the Category E contracts ($6.5 million); both are longer than the make-up period envisioned under the earlier prepayments. The longer the make-up period, the greater becomes the necessity for a balanced capital structure.

3. Additional direct payments by TCPL under contracts not included in Topgas Two may be incurred during the 1983/84 and 1984/85 contract years because of the higher obligation level in those contracts.

Q. What do you view as the principles governing the choice of an appropriate capital structure for these prepayments?

A. The guiding principle is found in the concept of an "efficient" capital structure, designed to minimize the total cost of capital. This concept is translated into practice by maintaining a balanced debt/equity ratio, consistent with the business risks of the assets.

Regulation proceeds generally on the premise that a utility's existing capital structure reflects (1) the exercise of prudent

managerial evaluation of the business risks, (2) the degree of risks the owners wish to assume, and (3) the exigencies of capital market conditions at the time the assets were financed. For these reasons, one finds considerable variations in existing capital structures of utilities with similar business risks. The differences in capital structure ratios then become an indication of the degree of financial risks the owners have assumed which, in turn, become a determinant of the level of compensation to which they are entitled.

Despite differences in existing capital structures among utilities of reasonably similar business risks, the utilities' existing actual capital structure have generally been accepted as a proxy for a reasonably efficient capital structure. The two principal exceptions are (1) truly uneconomic capital structures, e.g., equity ratios above 80% and (2) significant differences in the asset risks, e.g., utility operations and hydrocarbon exploration conducted under one corporate roof. Both exceptions lead the regulator to adopt "deemed" capital structures.

Because TCPL is a diversified utility-energy company, the National Energy Board determines TCPL's return on its pipeline operations by reference to a "deemed" capital structure, which represents a portion of the actual capital structure of TCPL's combined operations. The adoption of a capital structure for TCPL's Alberta cost of service constitutes merely another segmentation of its actual capital structure.

Irrespective of whether regulation proceeds on the basis of an actual or a deemed capital structure, the guiding criteria for a balanced capital structure are:

1. It should be consistent with the business risks of the assets.

2. It should permit financing on a stand-alone basis without giving or receiving subsidies from other assets of the business.

3. It should provide sufficient financial flexibility to avoid an adverse impact on the ability to finance additional assets.

Q. How do you propose to implement these principles for the financing of TCPL's direct gas prepayments?

A. The initial inquiry concerns the risks of the assets acquired by the prepayments. Economists frequently distinguish between risk and uncertainty. Risk is defined as the probability of failing to achieve the anticipated return or suffering an impairment of capital; uncertainty is a term reserved for the immeasurable aspects of unpredictable events. For the traditional utility's assets, return regulation evolves around the concept of risk; TCPL's prepayments fall into the realm of uncertainty.

The measurement of utility risks (for which there is no formula) typically relates to income-producing assets, for which the income received includes recovery of the invested capital over the life of the assets. The prepayments are not an income-producing asset, nor are they a futures contract entitling TCPL to purchase gas at today's price. They are merely a down payment for the right to purchase gas (at market prices) in the future. The risks of non-income producing assets are greater than for income-producing assets.

The evaluation of utility risks typically proceeds on the basis of experienced risks. There is no experience with the recovery of prepayments. One may speculate whether the reservoir conditions ten years hence may preclude some producers from delivering gas, whether the price of gas may render production of gas uneconomic, whether the regulatory mode may change over time so that some of the carrying costs may fall on TCPL, or whether, in the event of forfeiture, TCPL would be allowed to amortize any losses in its cost of service. Each of these aspects involves uncertainty.

The only certainty is that the $44.8 million prepayments of B_1B_3, and D_1B_3 contracts are exposed to significantly greater risks than the $6.5 million for Category E contracts. The recovery of the former is expected 10-15 years hence, compared to 5-10 years for the latter; none of the recovery of the $44.8 million may even commence until the make-up of all the Topgas and Topgas Two contracts has been completed.

The fact that no portion of the \$44.8 million prepayments will be recovered before the make-up period begins, and that the assets are not income producing, leads me to the conclusion that the risks lie above those of TCPL's pipeline assets. Giving consideration to the somewhat lesser risk of the \$6.5 million prepayments for the Category E contracts leads me to the further conclusion that the combined risks of the \$51.3 million prepayments are similar to those of TCPL's pipeline assets.

To place that conclusion in perspective, both the \$44.8 and the \$6.5 million payments arose out of market risks connected with pipeline operations; TCPL's risks for the prepayments can only be removed when the end-market absorbs the gas. Until such time, the risks of the prepayments are similar to the pipeline's overall risks.

I now turn to the "stand-alone" financing criterion. Lenders always require, even for the purchase of Government securities, some equity. The greater the risks and the longer the period of capital recovery, the greater becomes the required proportion of equity. A non-income-producing asset requires more equity than an income-producing-asset, because lenders like to see a positive cash flow to amortize the debt. The "stand-alone" principle may be translated into practice by examining the financing practices of other enterprises. The average debt/equity ratio for major Canadian Utilities -- approved by regulatory boards -- is approximately 52/48%; only one company significantly exceeds the 60/40 standard here proposed for TCPL's prepayments.

The third criterion relates to maintaining financing flexibility. If TCPL's prepayments were to be totally debt financed, it would adversely impact on its future ability to finance pipeline assets, for the reason that it provides no interest coverage, and could therefore adversely affect its credit rating. In essence, this criterion is a corollary to the principle that all financings should be consistent with relative risks. These risks of the prepayments are now greater than in earlier years (1977-81) when part of TCPL's take-or-pay obligations were financed by debt and by debt and preferred stock. The evolution of TCPL's financing of these prepayments should be viewed as similar to the utilities' evolution of construction expenditures costed at interest (IDC) in earlier years, compared to an allowance for funds, including a return on equity (AFUDC) in more recent times.

The above considerations lead me to the conclusion that the appropriate capital structure for TCPL's gas prepayments should closely track the 60/40 debt/equity ratio approved by the National Energy Board for TCPL's pipeline rate base.

Q. What cost rates do you recommend for the debt/equity ratio of 60/40 percent?

A. The impact of prepayments should not burden TCPL's distribution customers, or the ultimate consumers of gas. To avoid such a burdening, the prepayments should be viewed as identifiable assets, separately financed, at the <u>incremental</u> cost of capital.

Thus, the 60.0% debt portion should be costed at either the prime rate (on a floating basis) or, if financed by longer-term debt, at the effective rate (including financing costs) at which the designated issue is sold. The current long-term rate for TCPL's debt is 13.5%, including flotation costs.

The 40.0 percent equity component should be viewed as presently comprising 28.0 percent common equity (or the percentage approved by the National Energy Board in TCPL's pending application) and 12.0% preferred stock.

A 12.0 percent preferred stock ratio for a total capital of $51.3 million amounts to $6.1 million. That sum is too small to warrant issuing new preferred stock, because the flotation costs (legal and underwriting) would unduly raise the effective cost. Nevertheless, pending such an issue, producers should be entitled to the deemed lower cost of preferred (compared to common equity). The current rate for new preferred stock is approximately 9.0 percent.

In contrast to the specific designation of debt and preferred issues, common equity cannot be traced. Nevertheless, new equity issues, reploughed earnings or reinvestment of dividends constitute incremental common equity capital. As long as TCPL operates profitably, there will be sufficient new common equity to permit an attribution of a part thereof to TCPL's prepayments. The cost of such equity is a matter of informed judgment, constrained by

factual evidence with respect to alternative returns to investors. In my opinion, the equity return component for the prepayments should track the equity return allowance of the NEB, currently at 15.0% for TCPL's pipeline operations.

Since the equity return allowance constitutes an after-tax return to the investor, each dollar of equity return generates an income tax liability. It is therefore necessary to permit TCPL, as part of its cost of service, the recovery of income taxes on the equity component, computed at the marginal tax rate.

Q. Do you have an opinion on the propriety of the 11 7/8% rate used by TCPL on an interim basis?

A. I view that rate as an accommodation pending a regulatory determination of an appropriate capital structure and specific rates for the different components of the capital structure. An 11 7/8% rate, without any allowance for income taxes, lies only marginally above the prime rate and this falls short of TCPL's cost of capital.

Q. Does this conclude your testimony?

A. Yes.

APPENDIX A

Summary of Qualifications

of

Stephen F. Sherwin

I hold the degrees of Bachelor of Business Administration (1949), Master of Business Administration (1951), and PhD. in Economics (1956), all from the University of Wisconsin. My fields of study were Accounting, Economics, Finance, and Public Utilities.

After completing my graduate studies, I was an instructor in Economics at New York University. I have also been a guest lecturer at Penn State University and The George Washington University.

In 1956 I joined Foster Associates, Inc. During the last twenty-seven years I have been a consultant to both industry and government. In the course of these consulting activities, I have made numerous studies on the cost of capital and reasonable earnings requirements for airlines, electric and gas distribution utilities, natural gas pipelines, telephone companies, and water companies. I have also made studies of the economics and cost characteristics of the oil and gas industry, on selected aspects of taxation, on postal economics, and the securities industry.

The results of many of those studies have been presented as testimony before regulatory agencies in over eighty proceedings in the United States and Canada.

In Canada, I have submitted rate of return evidence during the last nine years in more than thirty proceedings before the National Energy Board (TransCanada PipeLines, Trans-Northern Pipe Line Co., Westcoast Transmission and Interprovincial Pipe Line Limited), the British Columbia Energy Commission (Pacific Northern Gas and West Kootenay Power & Light), the Ontario Energy Board (Consumers' Gas and Union Gas), the Public Utility Boards of Alberta (Alberta Power, Canadian Western Natural Gas, and Northwestern Utilities), Manitoba (Greater Winnipeg Gas); the Regie de L'Electricite et du Gaz of Quebec (Gazifere Inc. and Gaz Metropolitain); and the Canadian Radio-Television and Telecommunications Commission (Bell Canada).

In the United States, I submitted rate of return evidence before the Civil Aeronautics Board (Braniff, Continental, National, and Western Airlines); the Federal Energy Regulatory Commission (South Carolina Electric & Gas, Great Lakes Gas Transmission, Duke Power, Southern Union Gathering, Interstate Storage Division (Michigan Consolidated Gas), and Western Gas Interstate); the Public Service Commissions of Arizona (Southern Union Gas), the District of Columbia (Chesapeake & Potomac Telephone Company), Florida (Tampa Electric and General Telephone of Florida), Hawaii (Hawaiian Telephone), Maryland (Baltimore Gas & Electric), Michigan (Michigan Consolidated Gas), Missouri (Laclede Gas), New Mexico (Gas Company of New Mexico), New York (St. Lawrence Gas), North Carolina (Duke Power), Ohio (Dayton Power & Light), South Carolina (South Carolina Electric & Gas and Duke Power), Texas (Houston Lighting & Power), Virginia and West Virginia (Chesapeake & Potomac Telephone Companies, AT&T subsidiaries); before the Securities and Exchange Commission (for the National Association of Securities Dealers) on the subject of reasonable sales charges for mutual funds;

before the Interstate Commerce Commission and the Postal Rate Commission (for the U.S. Postal Service and two mailers' trade associations) on the costing and pricing of postal services; and before the Federal Power Commission (for Exxon, Gulf, Mobil, Texaco, and other oil companies) in twelve proceedings (including the Permian Basin and Area Rate Proceedings) concerned with the costing and pricing of natural gas at points of production.

Publications

"Monetary Policy in Continental Western Europe (1946-1951)", University of Wisconsin Press (1956).

"Cost of Natural Gas", Journal of Petroleum Technology (February 1965).

"Report on Principles of Costing and Rate Making for the U.S. Postal Service", co-author with H. Herz, President's Commission on U.S. Postal Organization (1968).

"Cost of Finding Hydrocarbons", Bureau of Land Management, Technical Bulletin 5 (May 1970).

"Economic Criteria for Postal Rate Making", Washington and Lee University (March 1977).

"The Rationale and Application of the Comparable Earnings Method", Earnings Regulation Under Inflation, Institute for Study of Regulation (1982).

EXHIBIT "B"

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TRANSCANADA PIPELINES LIMITED

Testimony of

Gordon S. Lackenbauer

Q. Please state your name, address and occupation.

A. My name is Gordon Stanley Lackenbauer. My business address is P.O. Box 35, Toronto-Dominion Centre, Toronto, Ontario, M5K 1C4. I am a Senior Vice President and Director of Nesbitt Thomson Bongard Inc., an investment dealer with offices in the principal cities of Canada and subsidiary companies in New York, London and Zurich. Nesbitt Thomson is a major underwriter and distributor of corporate and government securities and has extensive experience in the utility sector. My education and business experience are set out in Appendix A.

Q. What is the purpose of your testimony?

A. TransCanada has requested me to express an opinion on the appropriate method and related cost of financing its direct prepayments of approximately $51.3 million to producers pursuant to its take or pay obligations outside of the Topgas agreements. I have been informed that these prepayments could approximate $150 million, based on a 60% obligation level and on the 1982/83 unit price.

Q. What are your conclusions?

A. In my opinion, the most reasonable and practical approach would be to finance the direct prepayments using the same capital structure as that determined by the NEB for TransCanada's jurisdictional utility operations. However, the costs of the various capital components should be the marginal cost of the new capital required to finance such prepayments to ensure that the Alberta cost of service determination incorporates the full cost of the direct prepayments to the related producers who have chosen to remain outside the Topgas agreement. For purposes of the determination of such costs, the allowed rate of return on common equity determined by the NEB should be adopted, together with the actual costs of debt and preferred share capital to be raised. To illustrate, TransCanada's approved capital structure, excluding deferred taxes, for the current test year is approximately as follows:

Long-term Debt	60.0%
Preferred Share Equity	12.0
Common Equity	28.0
	100.0

The current costs of raising $51.3 million in such form under prevailing market conditions would approximate 13.38% based on the allowed rate of return on common equity of 15%, the 13 1/2% all-in annual cost of raising 15-year fixed rate debt with an

offering yield to maturity of approximately 13.25% and the 9% annual cost of raising 10-year retractable preferred shares. After provision for appropriate income taxes, the total cost of such capital would approximate 18.88%. Of course, the actual costs may differ somewhat from the above illustration depending upon the actual costs of such capital and any changes in TransCanada's capital structure and allowed rate of return subsequently approved by the NEB.

Q. Why have you reached such a conclusion?

A. My conclusions were determined in light of the risks associated with prepayments outside of the Topgas agreements and my assessment of the ability to finance such payments on a stand-alone basis. It is my understanding that most of the gas related to such direct prepayments can be recovered only after gas related to the Topgas agreements has been recovered. The Topgas structure provides for recovery over the 10-year period ended November 1, 1994, although it is conceivable that such recovery could be completed within approximately eight years. Accordingly, the recovery of gas for which prepayments have been made outside of Topgas can only be anticipated over a 10 to 15-year period unless Topgas is completed earlier, subject to certain exceptions and conditions.

In my opinion, the direct prepayments on a stand-alone basis could not be financed with more than 60% debt for a term of up to

15 years. More realistically, it would be quite unlikely that more than 50% debt could be raised on such credits. Nevertheless, in view of the relative magnitude of the amounts involved actually and potentially, I do not think it is necessary to debate the notional differences between the likelihood of achieving 50% or 60% debt ratios. Rather, I believe the adoption of the utility company capital structure is a reasonable compromise as a proxy for an acceptable stand-alone financing approach that does not undermine the principles at issue here.

Q. From a financial viewpoint, what is the basic principle at issue here?

A. Conceptually, it appears to me that the basic financial principle at issue here is the appropriate method of financing long-term assets. An absolutely fundamental premise of financial theory and practice is that the apparent source of cash used to acquire a particular asset cannot be used to justify that investment decision. Stated differently, dollar-tracing is an irrelevant exercise. The roads to the bankruptcy arena and failed courses in introductory finance are littered with the proponents of such an approach.

A firm has access to short-term funds based on its general credit standing which in turn reflects the appropriateness of its corporate capital structure both on an actual and a prospective basis. A firm with no equity cannot raise debt in any form to

finance its investments. In essence, this information response arises from the argument that a firm can raise debt without any equity. Such an argument can be nothing more than one of convenience which chooses to ignore TransCanada's equity capital that is underpinning both its short-term and long-term debt and focuses on an attempt to "colour code" dollars back to the cheapest source available. I am confident that if the tracing process happened to indicate that the actual cash was provided by a common equity issue, there would be no argument that TransCanada's cost of funds for such prepayments was approximately 15% before provision for income taxes and, accordingly, approximately 30.6% on a pre-tax basis.

In real terms, the Topgas agreements clearly serve to illustrate this point. Under this approach, the banks have required TransCanada effectively to "backstop" $355 million of the $2.6 billion while, commencing November 1, 1984, the loan reduces annually to the extent of 10% of the prepaid gas originally outstanding under the Topgas programs. In fact, the Topgas Two agreement provides for a backstopping of $55 million against a loan of $296 million, which represents an initial equity cushion of almost 20%. There is no schedule providing for the reduction of TransCanada's $355 million undertaking and the banks' equity protection, therefore, is growing steadily through the term of the agreement. In addition, TransCanada had to agree to pay any of the Topgas interest costs not recoverable through the Alberta

cost of service. It must be recognized that the Topgas agreements fully reflect arm's length negotiations of financing prepayments on a stand-alone basis and that the risks associated with failing to recover the gas related to such prepayments are less than those associated with TransCanada's direct prepayments which include a much longer term of recovery, no expected cash flow for the first 10 years and a group of companies with a lower level of creditworthiness than those involved in Topgas Two. The favourable interest rate of prime plus 7/8 of 1% on the Topgas financing reflects the term to maturity of approximately 11 years and an average term of approximately six years, the relatively low risk associated with the recovery of the gas related to the Topgas prepayments and the increasing relative equity cushion provided by TransCanada over the 11-year period.

Q. What are the implications for TransCanada's financing flexibility if it was able to obtain only a debt rate of return on its direct prepayments to producers?

A. Clearly, such treatment would have a negative impact on TransCanada's financing flexibility and could result in an erosion of its creditworthiness. That was exactly the reason why the Topgas arrangements were structured in the first place. Such treatment is simply a form of cross subsidization which is a subject matter of considerable ongoing concern to regulators in general.

The basic principle, as outlined earlier, comes down to the appropriateness of a corporation's capital structure in the financing of all of its assets. Notionally, all long-term assets are financed by the overall long-term capital structure. Short-term borrowings are viewed as either financing short-term assets or as interim financing of long-term assets which ultimately will be funded by long-term capital on the basis of the corporation's ongoing long-term capital structure. Accordingly, TransCanada's direct prepayments to producers should be funded by a capital structure with no less equity than that approved for its jurisdictional utility operations by the NEB since, at a minimum, the risks associated with recovering the gas related to the direct prepayments on a stand-alone basis are no less than those associated with TransCanada's transmission operations in Canada.

Q. Does this approach provide the lowest cost that is available to TransCanada to finance its direct prepayment obligations for a term of up to 15 years?

A. Yes. The very nature of an optimal or efficient capital structure ensures that the pre-tax cost of capital to a firm is minimized within the context of maintaining an appropriate level of financing flexibility to meet future growth. This consideration is of paramount importance to regulatory boards everywhere and is a critically important factor in the process of the evaluation and approval of a utility company's capital structure and cost of capital.

Q. At the beginning of your testimony, you set out the ratios for TransCanada's capital structure which implies various minimum issue sizes for debt, preferred share and common equity capital. Will TransCanada actually raise such relatively small amounts of funds in the capital markets?

A. Yes, except in the case of preferred shares. TransCanada's dividend reinvestment plan (DRIP) will provide a minimum amount of $50 million of new common equity in 1984, with the initial injection of such equity occurring in January. The expected proceeds from its DRIP are in the range of $52 million to $60 million, of which $14.4 million is required to fund the common equity portion of the $51.3 million of direct prepayments. Of course, TransCanada's increase in retained earnings through reinvestment of a significant portion of its 1984 net income also represents new equity to the company that would be available to fund its prepayment requirements.

The debt portion of the $51.3 million will require a debt issue with net proceeds of approximately $30.8 million. It would be a simple matter to raise this money in the private placement market in Canada since the issue size does not warrant going to the public market. However, it is also conceivable that the company may wish to raise debt with the same maturity for its other jurisdictional or non-jurisdictional operations, in which case it would do a larger issue in the public markets and allocate $30.8 million of the net proceeds to the funding of its $51.3 million requirements.

The balance of $6.1 million should be funded by preferred shares. However, such a small issue for a company of the size and stature of TransCanada would be both unusual and administratively costly. Since the company has no expectation that it will raise any preferred share capital for other purposes in 1984, it would not expect to do an issue for only $6.1 million. However, because TransCanada is choosing not to raise such funds, it should not expect to charge a higher cost than would be associated with such an issue. Accordingly, TransCanada will fund the $6.1 million in 1984 with additional common equity pending any increase in its prepayment obligations and/or its other corporate needs which would necessitate any need for additional preferred share capital in 1985 or beyond. During this period, it would only seek a preferred share rate of return on the $6.1 million of its common equity that actually would be funding the notional preferred share component of its $51.3 million requirement. Beyond 1984, TransCanada very well may raise preferred share capital and would allocate the appropriate amount to its direct prepayment obligations at that time. In the meantime, a 10-year retractable preferred share issue of TransCanada for its current needs would require an offering yield of approximately 9% under current market conditions.

Q. What is the appropriate tax treatment to use in this situation?

A. On a stand-alone basis, one must adopt the marginal costs associated with the financing of the assets involved to ensure no

cross-subsidization. Since the particular assets in this situation are prepayments for future gas deliveries, it follows that there are no capital cost allowances available to shield any of the taxes related to collecting the after-tax cost of the preferred share and common share equity capital that is funding approximately 40% of these prepayments. Accordingly, the marginal tax rate of approximately 51% will apply in full to both components of equity capital.

Q. What is an appropriate interim cost rate for the $51.3 million?

A. Once one departs from adopting the weighted cost of capital, including a provision for related income taxes, based on the capital structure financing a company's long-term assets, there is no conceptually correct basis for determining an appropriate interim rate. Regulatory boards in North America have recognized this principle for a long time and have been guided accordingly as evidenced by the widespread use of the weighted cost of capital as the AFUDC rate for construction work in progress, even though such construction is often apparently partly financed on an interim basis with cash raised from various short-term money market sources.

TransCanada was able to negotiate the Topgas loan agreements with a banking syndicate to finance its take or pay obligations on terms that are very attractive to the producers and that are "off balance sheet" to TransCanada. The rate of prime plus 7/8% of 1%

was particularly attractive for a loan of such duration and the high effective amount of leverage inherent in that financing. While producers accounting for approximately 20% of the take or pay volumes did not execute the Topgas Two agreement in time to participate in the first Closing, TransCanada decided that until the final outcome of discussions with the non-participating producers was determined, it would charge such producers only that amount applicable under Topgas Two simply as an accommodation on an interim basis.

Clearly, TransCanada's costs of capital to finance the $51.3 million for a term of up to 15 years are far greater than prime plus 7/8 of 1% for the reasons outlined earlier. Further, the risks associated with such prepayments are higher than those associated with the Topgas Two agreement. The interim rate of prime plus 7/8 of 1% on the $51.3 million of direct prepayments is a very favourable rate indeed. This rate should be replaced by TransCanada's weighted marginal cost of capital as soon as these costs are incurred or deemed to be incurred.

Q. Does this conclude your testimony at this time?

A. Yes.

APPENDIX A

GORDON S. LACKENBAUER

Education and Business Experience

I graduated from Loyola College with a B.A. - Honours Economics in 1965 and from the University of Western Ontario with a M.B.A. in 1968. In 1976, I obtained the designation of Chartered Financial Analyst. I joined the firm of Nesbitt Thomson and Company Limited, a national investment dealer, in June 1968 and was employed with that firm until January 1977, at which time I joined Pitfield Mackay Ross Limited as a Vice President and Director in the Corporate Finance Department. In November 1982, I returned to Nesbitt Thomson Bongard Inc. as a Senior Vice President and Director in the Corporate and Government Finance Department.

Since early 1969, I have been primarily involved with the underwriting and distribution of corporate debt and equity securities, although from October of 1980 until July of 1981 I spent a considerable amount of time on a special assignment as a representative of the Federal Government to assist Massey-Ferguson Limited and other interested parties and investors to put together an adequate recapitalization plan for the company. Since 1975, I have also appeared as an expert financial witness in various proceedings before the National Energy Board, the Ontario Energy Board and the Public Utilities Board of Alberta as well as in a private arbitration proceeding in Alberta.

DETERMINATION 83-08 (TCP)
Alberta Cost of Service
Natural Gas Pricing Agreement Act

APPLICATION

By application dated August 8, 1983, TransCanada PipeLines Limited (TransCanada) requests that the Alberta Petroleum Marketing Commission (the Commission) modify the rate of return on rate base used in determining TransCanada's Alberta cost of service in accordance with the Decision of the National Energy Board dated June, 1983. TransCanada also requests a revision to the current procedure of making application for periodic changes in the rate of return on rate base. The application (except for attachments) is shown in the attached Appendix A.

DECISION

1. TransCanada's rate of return on rate base for Alberta cost of service shall be 14.00 percent effective August 1, 1983.

2. TransCanada's request for revision to the current procedure of making application for periodic changes in the rate of return is denied.

REASONS

The Commission has in the past taken into account decisions made by other regulatory bodies exercising jurisdiction over transmission companies operating both within and without the Province of Alberta when such decisions have been consistent with Alberta law and Commission policies relating to Alberta cost of service. The Commission has reviewed the National Energy Board's Reasons for Decision and considers a 14.00% rate of return on rate base to be appropriate for Alberta cost of service.

DATED THIS 6th day of October, 1983, at Calgary, Alberta.

R. D. Hall
Vice-Chairman

IN THE MATTER OF AN APPLICATION

by TransCanada PipeLines Limited

to the Alberta Petroleum Marketing Commission

to modify the rate of return on rate base

in TransCanada PipeLines Limited's

Alberta Cost of Service

August 1983

REQUEST

TransCanada PipeLines Limited (TransCanada) hereby applies to the Alberta Petroleum Marketing Commission (the Commission) for approval to modify the rate of return on rate base used in determining TransCanada's Alberta cost of service in accordance with the Decision of the National Energy Board (NEB) dated June, 1983. TransCanada also requests a revision to the current procedure of making application for periodic changes in the rate of return on rate base.

In its Decision, the NEB allowed TransCanada to earn a 14.00% rate of return on rate base based on a deemed capitalization. A 15.00% return on a deemed common equity of 28% is included as a cost component in the approved rate of return. A copy of the NEB Decision which includes Orders No's. RH-2-83, TG-4-83, TG-5-83, and AO-1-TG-3-82 and the Reasons for Decision are attached as Exhibit "D" hereto. The pertinent information in the Reasons for Decision referring to the rate of return, is included under Chapter 3, page 9 through to and including page 13.

PRESENT PRACTICE

The previous rate of return on rate base approved by the NEB, which has been employed in calculating TransCanada's Alberta cost of service, was 13.88%. This rate has been effective from September 1, 1982 to July 31, 1983.

The Commission, by Determination 82-11 (TCP) dated 1982-11-09 accepted and approved the rate of return as set by the NEB.

The previous and present capital structures of TransCanada, approved by the NEB, are shown in Appendix V of the Reasons for Decision.

REASONS FOR THE REQUEST

The principles and methods which have been applied in the determination of TransCanada's Alberta cost of service, other than NOVA, An Alberta Corporation charges, are consistent with those approved by the NEB in establishing TransCanada's transmission tariff.

In prior determinations, the Commission has taken into account decisions made by the NEB providing such decisions were consistent with requirements of the Natural Gas Pricing Agreement Act or Commission policies relating to Alberta cost of service.

If a component of TransCanada's cost of service were to be allocated by the NEB to the transmission tariff on a basis which is different from the basis of allocation used by the Commission, this inconsistency would result in TransCanada obtaining more or less than its reasonable and necessary costs.

It is submitted that TransCanada adduced substantial evidence of its particular needs and circumstances at a public hearing held before the NEB in the months of May and June 1983. The producers, who were fully

represented at this hearing, cross-examined TransCanada extensively and submitted their own rebuttal evidence. The NEB thus had before it the full evidence and representations of TransCanada, the producers and other intervenors concerning TransCanada's particular needs and circumstances and the interests of the producers and other intervenors. The NEB considered and weighed this evidence and these representations in reaching its conclusions.

In view of these facts, TransCanada requests that this NEB Decision be applied uniformly in order to avoid unnecessary duplication of the regulatory process and unwarranted gains or losses to TransCanada.

In reference to the procedural change, it is TransCanada's opinion that the proposed method will facilitate both the administrative and regulatory processes in that it would dispense with the necessity for future periodic applications to the Commission when the only change is that of rate of return on rate base. Since the Commission currently monitors the NEB decisions, and for the previously mentioned reasons of consistency, it is proposed that TransCanada need only supply the Commission with a copy of the NEB Reasons for Decisions. If the NEB's decision impacts TransCanada's Alberta Cost of Service in any other area, then TransCanada will make application accordingly.

ANTICIPATED EFFECT ON TRANSCANADA'S ALBERTA COST OF SERVICE

The higher rate of return approved by the NEB will result in an estimated increase to TransCanada's Alberta cost of service (return component Line 8 per "Exhibit "A") of approximately $88,548 during the twelve month period ending July 31, 1983. The detailed calculations and assumptions are shown in Exhibits "A", "B" and "C".

Dated at the City of Calgary, in the Province of Alberta this 5th day of August, 1983.

Respectfully submitted
TRANSCANADA PIPELINES LIMITED

By:
E.W.H. Mallabone
Manager, Legal

Communications related to this Application should be directed to:

Mr. E.W.H. Mallabone
Manager, Legal
TransCanada PipeLines Limited
P.O. Box 500
Calgary, Alberta
T2P 2M7

AL 1.523

1900, 250 Sixth Avenue S.W., Calgary, Alberta, Canada T2P 3H7 Telex 03-821978 (403) 297-5500

December 4, 1984

INFORMATION BULLETIN RE ALBERTA COST OF SERVICE

The Alberta Cost of Service Information Bulletin for the month of October, 1984 is attached.

The Information Bulletin consists of:

1. Copies of any special Orders or Determinations issued by the Commission during the month with respect to Alberta Cost of Service, and notice of any Statements of Objection which have been received during the month; and

2. Alberta Cost of Service Determinations for the month.

In the case of gas intended to be removed from Alberta, the cost of service determined under Section 11(1), 15(3)(a) and 15(5)(b)(i) of the Natural Gas Pricing Agreement Act for each month is based on estimated figures for that month, adjusted to allow for differences between the estimated and actual figures for the previous month.

In the case of gas intended for consumption within Alberta, the amount estimated as cost of service under Sections 11(2)(a)(ii) and 15(3)(b)(i) of the Act were made under the Commission's general directive for the Alberta cost of service.

All determinations are on gross or higher heating value on a dry basis at 15°C and an absolute pressure of 101.325 kPa (kilopascal).

Yours very truly,

ALBERTA PETROLEUM MARKETING COMMISSION

D. L. Willis
Vice-Chairman

Attachment

INFORMATION BULLETIN
ALBERTA COST OF SERVICE DETERMINATION
PURSUANT TO THE NATURAL GAS PRICING AGREEMENT ACT
MONTH OF OCTOBER, 1984

Section 15(3)(a)	Cents Per Gigajoule (GJ)*
Alberta and Southern Gas Co. Ltd.	
- Category A	38.939
- Category B	35.390
- Category E	N/A
Canadian Montana Pipe Line Company	75.147
Canadian Montana Pipe Line Company (Reagan)	2.000
Canadian Montana Gas Company Limited	140.915
Consolidated Natural Gas Limited	41.827
ICG Resources Ltd.	34.316
Many Islands Pipe Line (Canada) Limited	
- Purchased Gas	37.828
- North Sibbald (Agent)	8.557
- Saddle Lake	29.020
- Esther	N/A
Pan-Alberta Gas Ltd.	
- Basic	34.924
- Delivery Points - Lloydminster "A"	66.363
- Bay Tree	46.933
- Lloydminster "B"	60.592
- Leige	36.531
- Fairydell-Bon Accord	36.728
Progas Limited	27.349
Simplot Chemical Company, Ltd.	36.951
Societe quebecoise d'initiatives petrolieres (SOQUIP)	33.027
Sulpetro Limited	31.590
TransCanada PipeLines Limited	
- Average(1)	51.941
- Category A	52.697
- Category B1B2	52.350
- Category B1B3	62.766
- Category B1D2	48.733
- Category D1B2	28.246
- Category D1B3	35.884
- Category D1D2	24.740
- Category E	44.678
Westcoast Transmission Company	
- Husky Oil Ltd.	29.470
- Petrogas Processing Ltd. et al	29.168
Westcoast Transmission Company (Alberta) Limited	
- North	29.644
- Triassic E	2.474

Section 15(3)(b) 30.000

.../2

Notes

* Calculated on a gross and dry heating value basis at 101.325 kpa (kilopascal) and 15°C.

Notice

The price adjustment for gas is $0.48/GJ
The Alberta Border Price is $2.798 04/GJ

(1) For purposes of sales within Alberta

Alberta PETROLEUM MARKETING COMMISSION

DETERMINATION 84-30 (TCP)
ALBERTA COST OF SERVICE
NATURAL GAS PRICING AGREEMENT ACT

SUBMISSION

By letter dated March 7, 1984 the Commission requested that TransCanada PipeLines Limited ("TransCanada") make a submission in respect to the Commission's proposal to restrict access to Category D (now D_1, and D_2) to those contracts under which repayment of outstanding take or pay payments has been made by October 31, 1984. The Commission request is attached as Appendix "A".

The submission filed by TransCanada dated April 18, 1984 is attached as Appendix "B".

DECISION

Determinations 82-14 (TCP) and 83-10 (TCP) are amended to restrict access to Category D, now sub-categories D_1 and D_2, to those contracts for which application has been made prior to November 1, 1984 and which have been approved by the Commission, and under which:

(a) repayment of outstanding take or pay payments in full occurs by December 31, 1984, or

(b) full recovery of outstanding take or pay payments will occur pursuant to an accelerated recovery agreement entered into prior to November 1, 1984.

REASONS

The Commission's policy applicable to take or pay costs recovered through Alberta cost of service recognizes that flowing gas must bear the cost of financing payments for gas not taken. The basis for this position is extensively summarized in Determination 84-05 which stated in part:

> "The multi-tiered Alberta cost of service instituted by Determination 82-10 (TCP) and later replaced by Determination 82-14 (TCP) was considered by the Commission to be justified by the Topgas program which resulted in different financing arrangements with respect to take or pay payments made to participants and non-participants of the program. Topgas also resulted in assured recovery of take or pay payments made to the participants without increasing their share of market during the period of recovery. However, with the exception of Category D, the implementation of multi-tiers did not cause the Commission to deviate from the view that all gas being taken should bear the financing costs of payments made for gas not taken."

Further, in the same Determination the Commission stated:

> "Category D was established for Topgas participation for the limited purpose, perhaps misguided, of inducing a voluntary reduction in the amount of take or pay payments outstanding under Categories B and C contracts."

The Commission considers the $30 million refunded to date to be minimal when compared to the approximately $2.6 billion advanced under the Topgas and Topgas Two programs and is not convinced that expected benefit to producers overall has been achieved.

The Commission accepts in theory that the refund of take or pay payments should benefit producers through the reduction of carrying costs in the Alberta cost of service. TransCanada recognizes in its submission that one of the factors influencing a producer's decision to refund take or pay payments is the individual producer's cost/benefit considerations of take or pay outstanding under an individual contract relative to the level of deliveries under that contract. For this reason the Commission is concerned that refunds prompted when it is in the producer's individual economic interest to do so will usually be achieved at the expense of other producers. In the Commission's opinion there is little incentive for producers to voluntarily refund payments except in situations in which the repayment amount is proportionately small in relation to current and/or future production under that contract.

TransCanada also describes the methods by which a producer can increase deliverability leading to increased gas takes under its contract. Under increasing deliveries the producer becomes more likely to return prepayments in order to gain relief from an increased share of interest costs. A refund of prepayments and reclassification of the contract to Category D in such circumstances would work to the detriment of the producers remaining in the interest-bearing Topgas and Topgas Two categories.

Under market conditions precipitating past, current and possibly future take or pay payments any and all gas deliveries contribute, in some part, to the aggregate take or pay burden. The take or pay placed at the individual contract level however, is not necessarily proportional to gas delivery levels under that contract. The Commission considers it is inappropriate to continue with interest-free categories which allow a producer to avoid the aggregate take or pay burden especially when this can operate to the disadvantage of producers remaining in the interest-bearing categories.

In its submission, TransCanada contends that each dollar of take or pay refunded reduces TransCanada's risk of non-recovery of prepaid gas. Further, TransCanada maintains that interest-free categories serve as an inducement for producers with questionable reserves to negotiate accelerated recovery agreements with TransCanada. The Commission considers such risks to be of an operational nature and not appropriate for resolution through the maintenance of an interest-free category of cost of service.

DATED THIS 16th day of November, 1984 at Calgary, Alberta.

W. Murray Smith
Secretary

APPENDIX "A"

Alberta

PETROLEUM MARKETING COMMISSION

403/262-8808
Telex: 03-821978
1900, 250 - 6th Avenue S.W.
Calgary, Alberta, Canada
T2P 3H7

March 7, 1984

TransCanada PipeLines Limited
530 - 8th Avenue S.W.,
Box 500,
Calgary, Alberta.
T2P 3V6

Attention: Mr. H. Mallabone

Gentlemen:

In the 'Reasons' to Determination 83-06 (TCP), the Commission stated in part:

> "Category D was established for Topgas participants for the limited purpose of inducing a voluntary reduction in the amount of take or pay payments outstanding under Categories B and C contracts after the implementation date of the Topgas program."

In view of the minor success in accomplishing the above objective, the Commission proposes to issue an order on or about June 1, 1984 amending Determinations 82-14 (TCP) and 83-10 (TCP) to restrict access to Category D (now D_1 and D_2) to those contracts under which repayment of outstanding take or pay payments has been made by October 31, 1984.

A submission by your company on this matter is requested by April 15, 1984.

Yours very truly,

ALBERTA PETROLEUM MARKETING COMMISSION

D. C. Hetland
Secretary and Solicitor

APPENDIX "B"

SUBMISSION TO THE ALBERTA PETROLEUM MARKETING COMMISSION

BY TRANSCANADA PIPELINES LIMITED

IN RESPECT OF THE PROPOSED CLOSURE OF

SUB-CATEGORIES D_1 and D_2 of

TRANSCANADA'S ALBERTA COST OF SERVICE

IN THE MATTER of the Natural Gas Pricing Agreement Act;

AND IN THE MATTER of the Alberta Cost of Service for TRANSCANADA PIPELINES LIMITED ("TRANSCANADA");

AND IN THE MATTER of a request by The Alberta Petroleum Marketing Commission (the "Commission") that TransCanada make a submission to the Commission in respect of the proposed termination by the Commission of Category D of TransCanada's Alberta Cost of Service

SUBMISSION OF TRANSCANADA PIPELINES LIMITED

By letter dated March 7, 1984, the Commission advised TransCanada that it proposes to issue an order on or about June 1, 1984 amending Determination 82-14 (TCP) and 83-10 (TCP) to restrict access to Category D (now D_1 and D_2) of TransCanada's Alberta cost of service to those contracts under which repayment of outstanding take or pay payments has been made by October 31, 1984. In response to the Commission's request that TransCanada make a submission in respect of this proposal, TransCanada submits to the Commission the following.

1. Risk to TransCanada of Non-Recovery of Prepaid Gas:

The take or pay obligation under a gas purchase contract arises fundamentally because of the direct correlation between market demand for natural gas and natural gas production. Until there is a demand for gas at the consumer level, gas cannot, generally speaking, be purchased by the Buyer. The extent of the supply available for production is a function of numerous factors, which include price, reserves development, production and processing facilities, regulation and controls and transportation facilities. All of these factors are largely beyond the control of Buyer. Similarly, market demand for gas is also a function of many factors which include price, deliverability, production,

reliability of supply, weather and consumer conservation incentives and practises. These factors also are beyond the control of the Buyer. In any given contract year, therefore, the matching of supply and demand by the Buyer under its gas purchase contracts is imperfect.

A gas purchase contract must allow the Buyer flexibility of take in order that it may carry on its business and respond to a varying market. The producer, on the other hand, who must finance the construction of production facilities while exclusively dedicating his reserves to the gas purchase contract, requires a security of cash flow during each contract year. By providing the producer a minimum cash flow and permitting the Buyer flexibility of take, the take or pay provision in the gas purchase contract effects a balance of these divergent interests. The intention of the Buyer is to achieve a rough matching of market and supply, such that over a period of years, Buyer's takes, as required by market demands, would equal or exceed its collective minimum obligations under its contracts. Outstanding take or pay payments, if and when they occur, are intended to be recovered over a short term.

Prior to 1977, this rough matching of TransCanada's supply and TransCanada's demand prevailed, and no take or pay of consequence was incurred. Take or pay payments which were made were recoverable over the immediate short term. The risk in making such payments was low because the payments could be allocated to producers who, over the foreseeable short term,

were financially stable and who held contracts with strong reserves and favourable recovery periods. Recovery could be virtually assured so long as prudent contract management was maintained.

From the late 1970's, TransCanada's markets became increasingly limited by the effects of mild weather, consumer resistance, unprecedented energy conservation and high regulated prices. High regulated prices encouraged unprecedented supply growth. In the 1980's, the effect of these factors was exacerbated by the occurrence of a deepening economic recession. These various conditions, unforeseeable at the time of original contracting, led to an increasing supply/demand imbalance. As a result, the rough matching of TransCanada's supply to its market demands could not occur. TransCanada's obligation to pay for gas not taken under its gas purchase contracts grew from $7 million in 1977 to approximately $2.3 Billion at the end of 1982 when the Topgas transaction was completed.

Such large prepayments by TransCanada to its producers would have created a very substantial risk, not before present, that the gas for which the payments were to be made would not be fully recovered. Such a volume of gas could only be absorbed by TransCanada's markets over a recovery period of significant length. Because of the magnitude of the payments, TransCanada would have little opportunity to place take or pay monies only with producers of demonstrated financial strength and only on contracts exhibiting reserves which were unquestionably adequate to support the recovery of the prepaid gas. In

addition, the extended term necessary for recovery created an uncertainty for assessment of reserves and of a producer's financial reliability. These various considerations produced the likelihood that, however prudently the contracts were managed, a portion of the prepaid gas would not be recovered. Though TransCanada had agreed to make such take or pay payments to its producers, TransCanada, in undertaking the gas purchase contracts, never anticipated that these payments would be made to producers at such a level of risk.

Under the Topgas Agreement, which was implemented in October of 1982, Topgas Holdings Limited ("Topgas"), paid to TransCanada's producers the full extent of TransCanada's take or pay obligations of $2.3 Billion. Under the Topgas Two Agreement, which was implemented in December of 1983, Topgas Two Inc. ("Topgas Two") paid an additional $300 million to producers in respect of TransCanada's 1982/83 obligation. In structuring these Agreements (the "Topgas Agreements"), it was necessary to deal with the risks associated with the payments being made insofar as negotiations with producers would allow.

The Topgas Agreements extend the period for recovery of the prepaid gas until as late as October 31, 1994. Under paragraph 11 of the Agreements, the prepaid gas is recovered out of gas delivered under each gas purchase contract at levels of allocation as determined under the allocation provisions of the Agreements. This mode of recovery contrasts with recoveries under the original gas purchase contracts where prepaid gas could only be taken in a contract year after satisfaction of full contract obligation.

Under paragraph 19 of the Agreements, TransCanada may negotiate with a producer to increase the rate of recovery of prepaid gas out of the annual allocated amount if it appears that the underlying reserves are not adequate to assure recovery at the usual rate. If TransCanada is unable to reach an agreement with the producer, the matter is to be determined by arbitration. If an increase in the rate of recovery of the prepaid gas will not assure full recovery, paragraph 20 of the Agreements allows TransCanada to recover all gas delivered under all of seller's gas purchase contracts with TransCanada as prepaid gas under a deficient contract until such time as that prepaid gas is fully recovered.

Though the foregoing provisions of the Topgas Agreements have a considerable impact to reduce the risk of the payments made under the Topgas Programs, the risk is not fully removed. The producer, for example, maintains a right under his gas purchase contract to cease production if that production has become uneconomic, as might well be the result of an agreement reached under paragraph 19. Paragraph 20, though particularly onerous for the producer, is an effective recovery mechanism where a producer has a large number of contracts, but it may be ineffective where a producer has only a few contracts and is entirely inapplicable if a producer has only one contract. Moreover, an accurate application of paragraphs 19 and 20 requires a precise anticipation of the state of reserves, and this precision is not fully attainable over the long term, particularly during the early recovery years. The recovery procedures under the Topgas Agreements do not address the consequences of possible financial failure of producers nor other uncertainties associated with the extended recovery term.

Thus, though the Topgas Agreements reduce the risk of non-recovery of the prepaid gas, the risk is not fully eliminated.

Within the Topgas Agreements, the risk of non-recovery appears to fall to the Topgas companies. By agreements between Topgas and TransCanada and Topgas Two and TransCanada, however, TransCanada has ndemnified Topgas to the extent of $315 million in respect of the recovery of Topgas prepaid gas, and has indemnified Topgas Two to the extent of $40 million in respect of the recovery of Topgas Two prepaid gas. The risk of recovery of the prepaid gas outstanding under the Topgas Agreements is, therefore, ultimately borne by TransCanada.

Category D

Category D (or sub-categories D_1 and D_2) was originally proposed in TransCanada's application of July 30, 1982. The proposal was expanded in TransCanada's application of October 22, 1982. In its Determination 82-14 (TCP), the Commission determined that:

> Category D shall consist of the gas purchase contracts amended by the Topgas Agreement under which Producers have repaid take or pay advances in full after October 5, 1982.
>
> No take or pay carrying costs shall be assessed to Category D.

In its Determination 83-10 (TCP), the Commission created sub-categories D_1 and D_2 which allowed a producer to be relieved of the burden of the carrying costs of either Topgas prepayments or Topgas Two prepayments.

Presently, a producer who repays either Topgas Prepaid Gas or Topgas Two Prepaid Gas or both receives the benefit of an increased net price for monthly volumes of gas produced. As well, a producer who is fully allocated but allows accelerated recovery of the prepaid gas under paragraph 19 of the Topgas Agreements, or otherwise, also obtains the benefit of an increased price for monthly volumes produced. Category D is, therefore, both an inducement to a producer to repay prepaid gas and an inducement to a producer with questionable reserves to accelerate the recovery of prepaid gas.

Repayments of Topgas and Topgas Two prepayments are a benefit to the Alberta gas industry insofar as repayment of the principal amount reduces the carrying costs in TransCanada's Alberta cost of service. More importantly, from TransCanada's point of view, such repayments constitute an assured recovery of funds, otherwise at risk, for which TransCanada could be called upon to reimburse Topgas or Topgas Two. As of March, 1984, TransCanada has received on behalf of Topgas and Topgas Two returns of prepayments in the amount of approximately $30 million. In terms of reducing the cost of financing included in the Alberta cost of service, such amount is only a small percentage of the total amounts outstanding. In terms, however, of contributing to the reduction of TransCanada's risk of non-recovery of prepaid gas, such amount is significant

for it effectively removes the possibility of a $30 million claim against TransCanada.

Proposed Termination of Category D

In its letter of March 7, 1984, the Commission proposes to issue an order on or about June 1, 1984 to restrict access to Category D (now D_1 and D_2) to those contracts under which repayment of outstanding take or pay payments have been made by October 31, 1984. The letter indicates that this action is to be taken "in view of the minor success" in "inducing a voluntary reduction of the amount of take or pay payments outstanding." By Determination 84-07 (TCP), dated April 5 , 1984, the Commission limited further access to Category D only to those contracts receiving the prior approval of the Commission. For the following reasons, TransCanada submits that the Commission should not limit access to Category D as proposed:

1. If a producer has questionable reserves under a contract such that the normal recovery rate of prepaid gas is not sufficient to assure full recovery, TransCanada will serve the producer with a notice under paragraph 19. If, as a result of paragraph 19, the recovery rate is increased, the producer, during the recovery period under his contract, will continue to deliver gas at allocated levels, but will receive a reduced level of cash flow. An accelerated recovery agreement is reached in the first instance under paragraph 19 by negotiation between TransCanada and the producers.

Failing negotiated agreement, a revised recovery rate is imposed through the arbitration process. A producer has little reason to co-operate in making an agreement under paragraph 19 for, apart from any other inducement, the result is to reduce his cash flow over the immediate short term even though he will continue to make the same deliveries.

If, however, the producer is assured that, upon the completion of full recovery of prepaid gas under his contract, volumes of gas produced under the contract will no longer attract the carrying costs of outstanding prepaid gas, the producer has a positive inducement to enter into the recovery agreement. If admission to Category D is barred and the producer will bear the interest costs of the prepaid gas whether or not he co-operates with the recovery procedure, he has reason to actually resist any temporary reduction in his cash flow, and resolution is likely to occur only through arbitration. TransCanada has observed that the presence of a Category D in its Alberta cost of service is essential to timely and reasonable settlement of matters raised under paragraph 19 and is, therefore, essential to TransCanada in reducing the risk associated with the non-recovery of prepaid gas. If Category D is closed, TransCanada anticipates that, unless TransCanada agrees to accelerate production of gas under deficient contracts, paragraph 19 would function only through protracted and costly arbitration, which would increase not only the possibility that the harsher provisions of paragraph 20 would be invoked, but also the risk that recovery might not ultimately be completed.

2. TransCanada has observed that where a notice is served under paragraph 19, some producers prefer to simply return the repayments rather than enter into a recovery agreement. From TransCanada's point of view, this procedure is preferable. If Category D is barred to those producers who simply return prepayments, there would be no incentive for a producer to respond to a paragraph 19 notice in this manner.

3. TransCanada has received no indication that any of its producers are opposed to a continuing Category D in TransCanada's Alberta cost of service. On the contrary, TransCanada has noted the interest of a number of producers in paying back the prepayments. TransCanada understands that many producers are simply incapable of returning prepayments under present economic circumstances. As the recovery period proceeds, however, the principal amount will decrease by 10%/year from November of 1984, and repayment will become increasingly less onerous. At the same time, TransCanada anticipates a gradual increase in its markets with the likely result that the producer's available cash will also increase. Thus, as time goes on, a producer who is inclined to pay back the prepayments but presently has limited cash available, may well be able to repay the funds at a later point in the allocation period. Repayment of funds should be particularily encouraged at the later times in the recovery period when reserves have become more depleted and the risk of deficiency is correspondingly higher. Closing Category D would terminate this process and increase the likelihood of non-recovery of the prepaid gas.

4. A producer who is not presently inclined to return prepayments, may yet consider a repayment to be adviseable at a later time in the allocation period. Under the present TransCanada Alberta cost of service, prepaid interest costs are allocated to contracts according to the volumes of gas produced under each contract in a given month. The contracts which produce more gas bear greater costs than those that produce less gas. This allocation of costs occurs without regard to the amount of prepaid gas outstanding under each such contract. Thus, a contract producing large volumes, but having a relatively low outstanding prepaid amount attracts a high cost rate on that prepaid gas. A contract producing lower volumes, but having a relatively high outstanding prepaid amount attracts a low cost rate on that prepaid gas. As the relative proportions of the delivery volumes change among the gas purchase contracts over the allocation period, so do the cost rates and the adviseability of returning the prepaid in order to eliminate that cost change. Apart from this simple cost consideration, TransCanada expects that over the recovery period, producers may experience any number of business constraints, not presently identifiable, which would lead to prepayments being returned. Closing Category D would preclude producers from returning prepayments at a future date if such return should become advisable from the producer's point of view.

5. Changes in the relative proportions of the deliveries of monthly volumes of gas among TransCanada's contracts occur because of two processes. First,

some of TransCanada's gas purchase contracts exhibit declining deliverability. Such decline may occur because of depleting reserves, or, depending upon the nature of the contract, may occur because of a failure by a producer to invest in deliverability maintenance and drilling activity on the lands under the contract. Decline in deliverability results in decline of TransCanada's minimum annual obligation and reduced deliveries of gas. Reduction of deliveries also means a reduced burden of prepayment interest costs. This would occur notwithstanding that there may be a relatively high level of prepaid gas outstanding under the declining contract and that such prepaid gas may be increasingly at risk because of the state of the underlying reserves. Second, some of TransCanada's gas purchase contracts exhibit increasing deliverability. Such increases may reflect not only that a producer has a right under its original gas purchase contract to add lands to its contract, but also that the producer has made substantial investment in exploration and drilling activity on the lands under contract. On those contracts with no right to add lands, increasing deliverability may simply result from additional investment by the producer in lands currently under production. Increases in production capability may lead to increased gas takes with the result that such contracts will bear a disproportionate amount of the monthly prepayment interest costs. Notwithstanding the recent decline in TransCanada markets, TransCanada emphasizes that such increasing contracts represent the creation of a security of supply for TransCanada which will be required by TransCanada over the longer term as its markets expand. As the effective

cost rate of maintaining outstanding prepaid gas increases, the producer becomes more likely to return prepayments in favour of relief from the interest costs of the prepaid gas. If Category D is closed, these producers who take an active role in the development of natural gas production in Alberta will be penalized for that role because they will bear a greater and greater share of take or pay interest costs which will be increasingly disproportionate in terms of actual prepayments held. Conversely, a benefit of reduced interest cost will be bestowed on those contracts which are in decline with the result that there will be a positive inducement to the producers of such contracts not to return the prepayments. TransCanada submits that such a development would not only be severely inequitable but would eliminate a process by which pressure is brought to bear on producers with weaker contracts to return monies outstanding.

For the foregoing reasons, TransCanada views Category D as an essential instrument in the creation of an optimum climate during the allocation period under the Topgas Agreements for the return of prepayments and the reduction of TransCanada's risk that the very large quantum of outstanding prepayments will not be fully recovered over the long period of recovery.

TransCanada urges the Commission not to close Category D as proposed in its letter of March 7, 1984, but to allow its continuation in TransCanada's Alberta

cost of service until such time as all prepaid gas under the Topgas Agreements is recovered.

With respect to the Commission's Determination 84-07 (TCP) of April 5, 1984, TransCanada is concerned that if admission to Category D is to be determined on a purely discretionary case by case basis, rather than by generally known principles, it will become more difficult for producers to plan for prepayment returns and it will become more difficult for TransCanada to conduct and conclude negotiations under paragraph 19 of the Topgas Agreements.

Dated at the City of Calgary, in the Province of Alberta, this 18 day of April, 1984.

All of which is respectfully submitted

TRANSCANADA PIPELINES LIMITED

per:

E. W. H. Mallabone
Manager, Legal

Communications related
to this Submission
should be directed to:

Mr. E. W. H. Mallabone
Manager, Legal
TransCanada PipeLines Ltd.
TransCanada PipeLines Tower
530 - 8th Avenue S.W.
P.O. Box 500, Station M
Calgary, Alberta
T2P 3V6

PETROLEUM MARKETING COMMISSION

DETERMINATION 84-31 (TCP)
ALBERTA COST OF SERVICE
NATURAL GAS PRICING AGREEMENT ACT

APPLICATION

Pursuant to Determination 84-07 (TCP), TransCanada PipeLines Limited (TransCanada) requests Commission approval to add specified gas purchase contracts to sub-categories D_1 or D_2 of TransCanada's Alberta cost of service.

The application dated August 24, 1984 and amended by letters of October 1, 1984, October 18, 1984, October 31, 1984 and November 26, 1984 is attached as Appendix "A". Determination 84-07 (TCP) is attached as Appendix "B" and Determination 84-30 (TCP) is attached, without appendices, as Appendix "C".

DECISION

1. For the following contracts, the Commission approves entry to sub-category D_1, as applied for, on condition of repayment in full of Topgas take or pay advances on or before December 31, 1984, and approves entry to sub-category D_2, as applied for, on condition of repayment in full of Topgas Two take or pay advances on or before the same date.

Contract	Current Category	Requested Category
01002	B_1B_2	D_1D_2
01012	B_1B_2	D_1D_2
01417	B_1D_2	D_1D_2
01553	D_1B_2	D_1D_2
01577	B_1B_2	D_1D_2
01642	B_1B_2	D_1D_2
01695	B_1B_2	D_1D_2
01754	B_1D_2	D_1D_2
01855	B_1B_3	D_1B_3
01866	D_1B_2	D_1D_2
01901	B_1B_2	D_1D_2
02164	B_1B_2	B_1D_2

2. Contract 00634 and contract 01228, both currently classified as B_1B_2 are allowed entry to Category D_1B_2 on condition of repayment in full of Topgas take or pay advances by December 31, 1984. Entry to Category D_1D_2, for both contracts, is denied.

3. Contract 01506, currently classified as B_1D_2 is denied entry to Category D_1D_2.

REASONS

The Commission has reviewed TransCanada's application, filed prior to November 1, 1984, for the contracts cited above. Determination 84-30 (TCP) restricted access to sub-categories D_1 and D_2 to those contracts for which application has been made prior to November 1, 1984, which are subsequently approved by the Commission and under which outstanding take or pay payments have been repaid in full by December 31, 1984 or full recovery of the same will occur pursuant to an accelerated recovery agreement entered into prior to November 1, 1984.

The Commission has approved entry to interest free categories on the basis of the criteria previously established by Determinations 82-14 (TCP), 83-10 (TCP) and 83-06 (TCP). The criteria for entry to sub-category D_1 are receipt of take or pay advances from Topgas and repayment of the advances in full after October 5, 1982. The criteria for entry to sub-category D_2 are receipt and repayment in full, after December 30, 1983, of take or pay advances from Topgas Two or waiving the advances to which the producer is entitled. However, the Commission, in Determination 83-06 (TCP), did not allow contracts in Category D upon repayment of the advances if such repayment was the result of gas deliveries in excess of the contract's prorata share of the market.

Contracts 00634 and 01228 were not eligible for take or pay advances from Topgas Two and therefore do not qualify for entry to sub-category D_2. This is consistent with Determinations 84-15 and 84-16 in which the Commission had previously denied entry to sub-category D_2 to producers who had requested it but had no Topgas Two advances to repay.

Contract 01506 was not eligible for take or pay advances from Topgas, therefore it does not qualify to be included in sub-category D_1. Entry to this sub-category was previously denied by the Commission in Determination 83-06 (TCP).

DATED THIS 30th day of November, 1984, at Calgary, Alberta.

W. Murray Smith

W. Murray Smith
Secretary

TransCanada PipeLines
TRANSCANADA PIPELINES TOWER 530 EIGHTH AVENUE S.W.
P.O. BOX 500 STATION M. CALGARY. CANADA T2P 3V6
(403) 269 5611

August 24, 1984

Alberta Petroleum Marketing Commission
1900, Bow Valley Square IV
250 - 6th Avenue S.W.
Calgary, Alberta
T2P 3H7

Attention: Secretary & Solicitor

Dear Sir:

Determination 84-07(TCP) made by the Commission on April 5, 1984 provided that for the period April 5, 1984 to October 31, 1984 inclusive, no gas purchase contracts shall be added to sub-categories D_1 or D_2 of TransCanada's Alberta cost of service without prior approval of the Commission.

Pursuant to Determination 84-07(TCP), TransCanada hereby requests the approval of the Commission to add to sub-category D_1 and D_2 of TransCanada's Alberta cost of service the gas purchase contracts specified in the Schedule "A"s attached hereto. The said Schedules set forth the pertinent information relative to each of the said contracts.

Yours very truly

E.W.H. Mallabone
Manager, Legal

TransCanada PipeLines
TRANSCANADA PIPELINES TOWER, 530 EIGHTH AVENUE S.W.
P.O. BOX 500, STATION M, CALGARY, CANADA T2P 3V6
(403) 269-5611

October 1, 1984

Alberta Petroleum Marketing
Commission
1900, 250 - 6th Avenue S. W.
Calgary, Alberta
T2P 3H7

Attention: Mr. V.M. Thomas
General Manager, Natural Gas

Dear Sir:

Re: August 24, 1984 Application

This will acknowledge your letter of September 27, 1984 wherein the Commission requested additional detailed information

"for every contract specified in Schedule "A", the "Total Prepaid Outstanding" should be segregated into the quantity of deficiency gas and the related dollar amount paid by each of Topgas, Topgas Two and TransCanada to the producer."

In reply to this request, TransCanada hereby encloses a Schedule "A" for each of the 15 gas purchase contracts included in the application and have specified on each the total prepaid outstanding and the quantity of deficiency gas outstanding under each contract; and the prepaid and the quantity of deficiency gas outstanding under each contract relative to the Topgas program, the Topgas Two program and TransCanada's Prepaid program.

Trusting this information is sufficient for your purposes.

Yours very truly

E.W.H. Mallabone
Manager, Legal
EWHM:ed
Encls.

SCHEDULE "A"

CONTRACT NO.: 00634 October 20/65

TOTAL PREPAID OUTSTANDING: $ 256 011.28 GJ 161 973

CONTRACT INFORMATION

INITIAL DELIVERY: Feb. 08/82

ALBERTA COST OF SERVICE: B_1 B_2

PARTICIPANT TOPGAS:	Yes	$ 256 011.28	GJ 161 973
PARTICIPANT TOPGAS TWO:	Yes	$ 0.00	GJ 0

ANNUAL TAKES:	Take Level	Production
1981/82	59.1 %	23 661.6 10^3m^3
1982/83	47.2 %	33 073.5 10^3m^3
1983/84	53.3 %	35 406.7 10^3m^3 (Projected)

TARGET RATE OF TAKE FOR ALLOCABLE CONTRACTS 53.3 %

REPAYMENT OF PREPAID: Seller is prepared to repay the total amount of outstanding take or pay payments upon the condition that the contract be eligible for inclusion to Category D_1 D_2 Alberta cost of service.

Under the terms of the Topgas program the Seller must give prior notice of repayment to TransCanada prior to the end of a month and the payment must then be made prior to the 25th day of the succeeding month. It is proposed that, if prior approval of the Commission has been obtained, the contract would be eligible for a change of cost of service for the production for the month next following the month of repayment.

SCHEDULE "A"

CONTRACT NO.: 01002 November 25/70

TOTAL PREPAID OUTSTANDING: \$ 1 934 682.99 GJ 1 261 523

CONTRACT INFORMATION

INITIAL DELIVERY: February 12/71

ALBERTA COST OF SERVICE: B_1B_2

PARTICIPANT TOPGAS: Yes \$ 1 615 968.29 GJ 1 105 820

PARTICIPANT TOPGAS TWO: Yes \$ 318 714.70 GJ 155 703

ANNUAL TAKES:	Take Level	Production
1981/82	56.9 %	15 714.1 10^3m^3
1982/83	45.0 %	11 882.9 10^3m^3
1983/84	53.3.%	14 361.7 10^3m^3 (Projected

TARGET RATE OF TAKE
FOR ALLOCABLE CONTRACTS 53.3 %

REPAYMENT OF PREPAID: Seller is prepared to repay the total amount of outstanding take or pay payments upon the condition that the contract be eligible for inclusion to category D_1D_2 Alberta cost of service.

Under the terms of the Topgas program the Seller must give prior notice of repayment to TransCanada prior to the end of a month and the payment must then be made prior to the 25th day of the succeeding month. It is proposed that, if prior approval of the Commission has been obtained, the contract would be eligible for a change of cost of service for the production for the month next following the month of repayment.

SCHEDULE "A"

CONTRACT NO.: 01012 January 8/71

TOTAL PREPAID OUTSTANDING: $ 516 151.81 GJ 347 073

CONTRACT INFORMATION

INITIAL DELIVERY: February 4/71

ALBERTA COST OF SERVICE: B_1B_2

PARTICIPANT TOPGAS: Yes $ 458 610.28 GJ 318 962

PARTICIPANT TOPGAS TWO: Yes $ 57 541.53 GJ 28 111

ANNUAL TAKES:

	Take Level	Production
1981/82	68.1 %	11 067.3 10^3m^3
1982/83	60.1 %	6 070.6 10^3m^3
1983/84	69.6 %	5 845.7 10^3m^3 (Projected)

TARGET RATE OF TAKE FOR ALLOCABLE CONTRACTS 53.3 %

REPAYMENT OF PREPAID: Seller is prepared to repay the total amount of outstanding take or pay payments upon the condition that the contract be eligible for inclusion to category D_1D_2 Alberta cost of service.

Under the terms of the Topgas program the Seller must give prior notice of repayment to TransCanada prior to the end of a month and the payment must then be made prior to the 25th day of the succeeding month. It is proposed that, if prior approval of the Commission has been obtained, the contract would be eligible for a change of cost of service for the production for the month next following the month of repayment.

SCHEDULE "A"

TRACT NO.: 01228 May 1/74

AL PREPAID OUTSTANDING: $ NIL GJ NIL

TRACT INFORMATION

TIAL DELIVERY: October 8/76

BERTA COST OF SERVICE: B_1B_2

RTICIPANT TOPGAS: Yes $ 0.00 GJ 0

RTICIPANT TOPGAS TWO: Yes $ 0.00 GJ 0

NUAL TAKES:	Take Level	Production
1981/82	72.9 %	19 622.6 10^3m^3
1982/83	49.1 %	10 620.1 10^3m^3
1983/84	59.0 %	16 533.2 10^3m^3 (Projected)

TARGET RATE OF TAKE
FOR ALLOCABLE CONTRACTS 53.3 %

REPAYMENT OF PREPAID: Seller has repaid the total amount of outstanding take or pay payments.

SCHEDULE "A"

CONTRACT NO.: 01417

TOTAL PREPAID OUTSTANDING: $ 46 421.50 GJ 35 459

CONTRACT INFORMATION

INITIAL DELIVERY:	November 22, 1974		
ALBERTA COST OF SERVICE:	B_1 D_2		
PARTICIPANT TOPGAS:	Yes	$ 46 421.50	GJ 35 459
PARTICIPANT TOPGAS TWO:	Yes	$ 0.00	0

ANNUAL TAKES:

	Take Level	Production
1981/82	136.2 %	13 235.4 10^3m^3
1982/83	48.9 %	5 297.3 10^3m^3
1983/84	52.5 %	5 710.0 10^3m^3 (Projected)

TARGET RATE OF TAKE FOR ALLOCABLE CONTRACTS 52.5 %

REPAYMENT OF PREPAID:

Seller is prepared to repay the total amount of outstanding take or pay payments upon the condition that the contract be eligible for inclusion to Category D_1 D_2 Alberta cost of service.

Under the terms of the Topgas program the Seller must give prior notice of repayment to TransCanada prior to the end of a month and the payment must then be made prior to the 25th day of the succeeding month. It is proposed that, if prior approval of the Commission has been obtained, the contract would be eligible for a change of cost of service for the production for the month next following the month of repayment.

ACT NO.: 01506

. PREPAID OUTSTANDING: $ 00.00 GJ 0

RACT INFORMATION

IAL DELIVERY: August 13, 1976

.RTA COST OF SERVICE: B_1 D_2

TICIPANT TOPGAS: Yes $ 0.00 GJ 0

TICIPANT TOPGAS TWO: Yes $ 0.00 GJ 0

UAL TAKES:	Take Level	Production
1981/82	130.3 %	1 6718.3 10^3m^3
1982/83	48.2 %	5764.2 10^3m^3
1983/84	53.4 %	6469.0 10^3m^3 (Projected)

ARGET RATE OF TAKE
OR ALLOCABLE CONTRACTS 52.5 %

EPAYMENT OF PREPAID: All outstanding take or pay payments were recovered in October 1982 under provisions of a recovery agreement and under the "higher of concept".

SCHEDULE "A"

CONTRACT NO.: 01553

TOTAL PREPAID OUTSTANDING: $ 256 953.12 GJ 110 376

CONTRACT INFORMATION

INITIAL DELIVERY: October 29, 1976

ALBERTA COST OF SERVICE: D_1 B_2

PARTICIPANT TOPGAS: Yes $ 256 953.12 GJ 110 376

PARTICIPANT TOPGAS TWO: Yes $ 0.00 GJ 0

ANNUAL TAKES:	Take Level	Production
1981/82	62.2 %	16 477.2 10^3m^3
1982/83	48.9 %	12 915.5 10^3m^3
1983/84	52.5 %	13 692.0 10^3m^3 (Projected)

TARGET RATE OF TAKE FOR ALLOCABLE CONTRACTS 52.5 %

REPAYMENT OF PREPAID: Seller is prepared to repay the total amount of outstanding take or pay payments upon the condition that the contract be eligible for inclusion to Category D_1 D_2 Alberta cost of service.

Under the terms of the Topgas program the Seller must give prior notice of repayment to TransCanada prior to the end of a month and the payment must then be made prior to the 25th day of the succeeding month. It is proposed that, if prior approval of the Commission has been obtained, the contract would be eligible for a change of cost of service for the production for the month next following the month of repayment.

SCHEDULE "A"

CONTRACT NO.: 01577

TOTAL PREPAID OUTSTANDING: $ 68 497.73 GJ 47 302

CONTRACT INFORMATION

INITIAL DELIVERY:	November 1, 1975		
ALBERTA COST OF SERVICE:	B_1 B_2		
PARTICIPANT TOPGAS:	Yes	$ 66 536.76	GJ 46 344
PARTICIPANT TOPGAS TWO:	Yes	$ 1 960.97	GJ 958

ANNUAL TAKES:	Take Level	Production
1981/82	61.8 %	14 718.6 10^3m^3
1982/83	47.8 %	13 787.7 10^3m^3
1983/84	52.5 %	14 711.0 10^3m^3 (Projected)

TARGET RATE OF TAKE
FOR ALLOCABLE CONTRACTS 52.5 %

REPAYMENT OF PREPAID: Seller is prepared to repay the total amount of outstanding take or pay payments upon the condition that the contract be eligible for inclusion to Category D_1 D_2 Alberta cost of service.

Under the terms of the Topgas program the Seller must give prior notice of repayment to TransCanada prior to the end of a month and the payment must then be made prior to the 25th day of the succeeding month. It is proposed that, if prior approval of the Commission has been obtained, the contract would be eligible for a change of cost of service for the production for the month next following the month of repayment.

SCHEDULE "A"

CONTRACT NO.: 01642 January 14/76

TOTAL PREPAID OUTSTANDING: $ 215 986.31 GJ 145 533

CONTRACT INFORMATION

INITIAL DELIVERY: April 5/77

ALBERTA COST OF SERVICE: B_1 B_2

PARTICIPANT TOPGAS:	Yes	$ 174 994.29	GJ 125 507
PARTICIPANT TOPGAS TWO:	Yes	$ 40 992.02	GJ 20 026

ANNUAL TAKES:	Take Level	Production
1981/82	74.0 %	1 879.0 10^3m^3
1982/83	49.3 %	944.3 10^3m^3
1983/84	75.0 %	1 559.3 10^3m^3 (Projected)

TARGET RATE OF TAKE
FOR ALLOCABLE CONTRACTS 53.3 %

REPAYMENT OF PREPAID: Seller is prepared to repay the total amount of outstanding take or pay payments upon the condition that the contract be eligible for inclusion to Category D_1 D_2 Alberta cost of service.

Under the terms of the Topgas program the Seller must give prior notice of repayment to TransCanada prior to the end of a month and the payment must then be made prior to the 25th day of the succeeding month. It is proposed that, if prior approval of the Commission has been obtained, the contract would be eligible for a change of cost of service for the production for the month next following the month of repayment.

SCHEDULE "A"

CONTRACT NO.: 1695 March 23/76

TOTAL PREPAID OUTSTANDING: $ 928 446.26 GJ 592 012

CONTRACT INFORMATION

INITIAL DELIVERY: August 2/76

ALBERTA COST OF SERVICE: B_1B_2

PARTICIPANT TOPGAS: Yes $ 734 580.57 GJ 497 302

PARTICIPANT TOPGAS TWO: Yes $ 193 865.69 GJ 94 710

ANNUAL TAKES:	Take Level	Production
1981/82	79.2 %	19 622.6 10^3m^3
1982/83	49.1 %	10 620.1 10^3m^3
1983/84	60.6 %	13 468.8 10^3m^3 (Projecte

TARGET RATE OF TAKE
FOR ALLOCABLE CONTRACTS 53.3 %

REPAYMENT OF PREPAID: Seller is prepared to repay the total amount of outstanding take or pay payments upon the condition that the contract be eligible for inclusion to category D_1D_2 Alberta cost of service.

Under the terms of the Topgas program the Seller must give prior notice of repayment to TransCanada prior to the end of a month and the payment must then be made prior to the 25th day of the succeeding month. It is proposed that, if prior approval of the Commission has been obtained, the contract would be eligible for a change of cost of service for the production for the month next following the month of repayment.

SCHEDULE "A"

CONTRACT NO.: 01754 April 29/76

TOTAL PREPAID OUTSTANDING: $ 161 758.91 GJ 109 586

CONTRACT INFORMATION

INITIAL DELIVERY: September 8/76

ALBERTA COST OF SERVICE: B_1D_2

PARTICIPANT TOPGAS: Yes $ 161 758.91 GJ 109 586

PARTICIPANT TOPGAS TWO: Yes $ 0.00 0

ANNUAL TAKES:	Take Level	Production
1981/82	74.8 %	3 299.7 10^3m^3
1982/83	42.3 %	1 360.4 10^3m^3
1983/84	53.3 %	3 202.5 10^3m^3 (Projected)

TARGET RATE OF TAKE FOR ALLOCABLE CONTRACTS 53.3 %

REPAYMENT OF PREPAID: Seller is prepared to repay the total amount of outstanding take of pay payments upon the condition that the contract be eligible for inclusion to category D_1D_2 Alberta cost of service.

Under the terms of the Topgas program the Seller must give prior notice of repayment to TransCanada prior to the end of a month and the payment must then be made prior to the 25th day of the succeeding month. It is proposed that, if prior approval of the Commission has been obtained, the contract would be eligible for a change of cost of service for the production for the month next following the month of repayment.

SCHEDULE "A"

CONTRACT NO.: 01855 July 30/76

TOTAL PREPAID OUTSTANDING: $ 75 956.48 GJ 44 386

CONTRACT INFORMATION

INITIAL DELIVERY: February 7/77

ALBERTA COST OF SERVICE: B_1B_3

PARTICIPANT TOPGAS: Yes $ 50 809.82 GJ 32 101

PARTICIPANT TOPGAS TWO: No $ 25 146.66 GJ 12 285 TCPL

ANNUAL TAKES:	Take Level	Production
1981/82	64.5 %	1 361.7 10^3m^3
1982/83	44.5 %	912.3 10^3m^3
1983/84	47.9 %	892.3 10^3m^3 (Projected

TARGET RATE OF TAKE
FOR ALLOCABLE CONTRACTS 53.3 %

REPAYMENT OF PREPAID: Seller is prepared to repay all outstanding take or pay payments on the condition that the contract is eligible for Category D_1B_3 Alberta cost of service.

Under the terms of the Topgas program the Seller must give prior notice of repayment to TransCanada prior to the end of a month and the payment must then be made prior to the 25th day of the succeeding month. It is proposed that, if prior approval of the Commission has been obtained, the contract would be eligible for a change of cost of service for the production for the month next following the month of repayment.

SCHEDULE "A"

CONTRACT NO.: 01866 August 11/76

TOTAL PREPAID OUTSTANDING: $ 15 822.85 GJ 206.5

CONTRACT INFORMATION

INITIAL DELIVERY: June 3/77

ALBERTA COST OF SERVICE: D_1B_2

PARTICIPANT TOPGAS:	Yes	$	0.00	GJ	0
PARTICIPANT TOPGAS TWO:	Yes	$	15 822.85	GJ	206.5

ANNUAL TAKES:	Take Level	Production
1981/82	125.1 %	4 280.2 10^3m^3
1982/83	48.6 %	1 497.5 10^3m^3
1983/84	53.3 %	1 535.4 10^3m^3 (Projecte

TARGET RATE OF TAKE
FOR ALLOCABLE CONTRACTS 53.3 %

REPAYMENT OF PREPAID: Seller is prepared to repay the total amount of outstanding take or pay payments upon the condition that the contract be eligible for inclusion to category D_1D_2 Alberta cost of service.

Under the terms of the Topgas program the Seller must give prior notice of repayment to TransCanada prior to the end of a month and the payment must then be made prior to the 25th day of the succeeding month. It is proposed that, if prior approval of the Commission has been obtained, the contract would be eligible for a change of cost of service for the production for the month next following the month of repayment.

SCHEDULE "A"

CONTRACT NO.: 01901 September 3/76

TOTAL PREPAID OUTSTANDING: $ 133 672.28 GJ 86 056

CONTRACT INFORMATION

INITIAL DELIVERY: June 22/77

ALBERTA COST OF SERVICE: B_1B_2

PARTICIPANT TOPGAS: Yes $ 108 900.21 GJ 73 954

PARTICIPANT TOPGAS TWO: Yes $ 24 772.07 GJ 12 102

ANNUAL TAKES:	Take Level	Production
1981/82	70.4 %	1 457.3 10^3m^3
1982/83	45.5 %	737.7 10^3m^3
1983/84	53.3 %	795.6 10^3m^3 (Projected)

TARGET RATE OF TAKE FOR ALLOCABLE CONTRACTS 53.3 %

REPAYMENT OF PREPAID: Seller is prepared to repay the total amount of outstanding take or pay payments upon the condition that the contract be eligible for inclusion to category D_1D_2 Alberta cost of service.

Under the terms of the Topgas program the Seller must give prior notice of repayment to TransCanada prior to the end of a month and the payment must then be made prior to the 25th day of the succeeding month. It is proposed that, if prior approval of the Commission has been obtained, the contract would be eligible for a change of cost of service for the production for the month next following the month of repayment.

SCHEDULE "A"

CONTRACT NO.: 02164 September 7/77

TOTAL PREPAID OUTSTANDING: \$ 599,526.21 GJ 292889

CONTRACT INFORMATION

INITIAL DELIVERY: November 1/82

ALBERTA COST OF SERVICE: B_1B_2

PARTICIPANT TOPGAS: Yes \$ 0.00 GJ 0

PARTICIPANT TOPGAS TWO: Yes \$ 599 526.21 GJ 292 889

ANNUAL TAKES:	Take Level	Production
1981/82	0 %	0 10^3m^3
1982/83	46.1 %	25 485.0 10^3m^3
1983/84	53.3 %	28 949.6 10^3m^3 (Projected)

TARGET RATE OF TAKE FOR ALLOCABLE CONTRACTS 53.3 %

REPAYMENT OF PREPAID: Seller is prepared to repay the total amount of outstanding take or pay payments upon the condition that the contract be eligible for inclusion to category D_1D_2 Alberta cost of service.

Under the terms of the Topgas program the Seller must give notice of repayment to TransCanada prior to the end of a month and the payment must be made prior to the 25th day of the succeeding month. It is proposed that, if prior approval of the Commission has been obtained, the contract would be eligible for a change of cost of service for the production for the month next following the month of repayment.

TransCanada PipeLines
TRANSCANADA PIPELINES TOWER 530 EIGHTH AVENUE S.W.
P.O. BOX 500 STATION M. CALGARY CANADA T2P 3V6
(403) 269 5611

October 18, 1984

Alberta Petroleum Marketing
Commission
1900, 250 - 6th Avenue S. W.
Calgary, Alberta
T2P 3H7

Attention: Mr. V.M. Thomas
General Manager, Natural Gas

Dear Sir:

This will acknowledge receipt of your letter of October 15, 1984.

The following information is submitted in answer to the questions raised:

(a) Contract 00634
Current Category: B1B2
Requested Category: D1D2

This contract came on stream February 8, 1982 and thus the obligation for the 1981/82 contract year was based on a 9 month period. As a result the take or pay floor for the 1982/83 contract year (60% of the 1981/82 minimum annual obligation) was less than the allocated rate of take (47.2%) in the 1982/83 contract year.

(b) Contract 01228
Current Category: B1B2
Requested Category: D1D2

The transfer payment made by Topgas under the contract for take or pay made by TransCanada was $132,888.25 (99 690 GJ). This prepaid gas was fully recovered in April 1984 from gas delivered under another contract which was allocated. There was no production designated to the contract in the 1982/83 contract year and no Topgas payment was made under the contract.

.../2

(c) Contract 01506
Current Category: B1D2
Requested Category: D1D2

This contract was submitted for entry into Category D by Application dated April 28, 1983. TransCanada made prepayments for 267.2 10^3m^3 in 1978/79 and for 3226.1 10^3m^3 in 1979/80. This outstanding prepaid gas was recovered under the higher of concept in 1981/82 and there was no outstanding prepaid gas as of October 5, 1982. The contract was operated above the allocation level in 1981/82. The Seller has requested TransCanada to make this application based on the reasons set out in Determination 83-06(TCP):

"In the application TransCanada further requests that gas purchase contracts under which accelerated recovery of take or pay gas occurs through deliveries above the prorata market share remain in Category B after recovery is completed for the number of years that accelerated recovery takes place. This method of recovery may increase the cost of take or pay obligations incurred under other gas purchase contracts and therefore the Commission wishes to examine the circumstances of the accelerated recovery before ruling on the eligibility of individual contracts for Category D."

(d) Contract 01553
Current Category: D1B2
Requested Category: D1D2

Enclosed is a revised Schedule "A" for this contract which discloses Topgas Two prepayments outstanding and no Topgas payments outstanding. The Topgas prepayment of $1,407,247.92 was returned in September 1983.

(e) Contract 02164
Current Category: B1B2
Requested Category: D1D2

This contract had its initial delivery in November 1982 and thus is a similar situation as contract #02147 which was the subject of Determination 84-05. Accordingly we request that application be amended to provide for inclusion of this contract to Category B_1D_2.

E.W.H. Mallabone
Manager, Legal

SCHEDULE "A"

CONTRACT NO.: 01553

TOTAL PREPAID OUTSTANDING: $ 256 953.12 GJ 110 376

CONTRACT INFORMATION

INITIAL DELIVERY: October 29, 1976

ALBERTA COST OF SERVICE: D_1 B_2

PARTICIPANT TOPGAS: Yes $ 0.00 GJ 0

PARTICIPANT TOPGAS TWO: Yes $ 256 953.12 GJ 110 376

ANNUAL TAKES:	Take Level	Production
1981/82	62.2 %	16 477.2 10^3m^3
1982/83	48.9 %	12 915.5 10^3m^3
1983/84	52.5 %	13 692.0 10^3m^3 (Projected)

TARGET RATE OF TAKE
FOR ALLOCABLE CONTRACTS 52.5 %

REPAYMENT OF PREPAID: Seller is prepared to repay the total amount of outstanding take or pay payments upon the condition that the contract be eligible for inclusion to Category D_1 D_2 Alberta cost of service.

Under the terms of the Topgas program the Seller must give prior notice of repayment to TransCanada prior to the end of a month and the payment must then be made prior to the 25th day of the succeeding month. It is proposed that, if prior approval of the Commission has been obtained, the contract would be eligible for a change of cost of service for the production for the month next following the month of repayment.

TransCanada PipeLines
TRANSCANADA PIPELINES TOWER 530 EIGHTH AVENUE S.W.
P.O. BOX 500 STATION M CALGARY CANADA T2P 3V6
(403) 269 5611

October 31, 1984

Alberta Petroleum Marketing
Commission
1900, 250 - 6th AVenue S.W.
Calgary, Alberta
T2P 3H7

Attention: Mr. V.M. Thomas
General Manager, Natural Gas

Dear Sir:

Re: August 24, 1984 Application respecting contracts requiring entry into sub-categories D_1 and D_2 of TransCanada's Alberta cost of service.

This will acknowledge your letter of October 29, 1984.

The following information is submitted in response to the questions raised relating to Contract No. 01228.

1. Your application shows gas taken at 40% during 1982/83 contract year yet your letter of October 18, 1984 reveals that there was no gas delivery under this contract. Please clarify.

   There are three contracts producing to collection point 1330-05. During the 1982/83 contract year those three contracts were allocated at 49.1% but the opeator advised that no production was designated for Contract No. 01228.

2. If there were no gas deliveries during 1982/83 contract year, please confirm that there was no payment made under the Topgas Two program.

   Since there was no production designated for Contract No. 01228 no Topgas Two payment was made relative to that contract.

3. Your letter of October 18, 1984 stated that recovery of prepayments under the Topgas program was recovered from a separate contract. Please confirm that the separate contract did not receive greater than its proportionate market share.

   The prepayments under the Topgas program relative to Contract

No. 1228 was recovered from gas delivered under Contract No. 0775 which was allocated and did not receive greater than its proportionate market share.

Trusting this meets with your satisfaction.

Yours very truly

E.W.H. Mallabone
Manager, Legal
EWHM:ed

TransCanada PipeLines
TRANSCANADA PIPELINES TOWER 530 EIGHTH AVENUE S W
P O BOX 500 STATION M CALGARY CANADA T2P 3V6
(403) 269 5611

November 26, 1984

Alberta Petroleum Marketing Commission
1900, Bow Valley Square IV
250 - 6th Avenue S. W.
Calgary, Alberta
T2P 3H7

Attention: V.M. Thomas

Dear Sir:

In response to your telephone inquiry on November 26, 1984, relating to Contract 01866 which was dealt with in our application of August 24, 1984, enclosed is a new Schedule "A" for Contract 01866.

Yours truly

E.W.H. Mallabone
EWHM:ed
Encl.

SCHEDULE "A"

CONTRACT NO.: 01866 August 11, 1976

TOTAL PREPAID OUTSTANDING: $ 15 822.85 GJ 7 730

CONTRACT INFORMATION

INITIAL DELIVERY: June 3, 1977

ALBERTA COST OF SERVICE: D_1B_2

PARTICIPANT TOPGAS:	Yes	$ 0	GJ 0
PARTICIPANT TOPGAS TWO:	Yes	$ 15 822.85	GJ 7 730

ANNUAL TAKES:	Take Level	Production
1981/82	125.1 %	4 280.2 10^3m^3
1982/83	48.6 %	1 497.5 10^3m^3
1983/84	53.3 %	1 535.4 10^3m^3 (Projected

TARGET RATE OF TAKE
FOR ALLOCABLE CONTRACTS 53.3 %

REPAYMENT OF PREPAID:

Seller is prepared to repay the total amount of outstanding take or pay payments upon the condition that the contract be eligible for inclusion to Category D_1D_2 Alberta cost of service.

Under the terms of the Topgas program the Seller must give prior notice of repayment to TransCanada prior to the end of a month and the payment must then be made prior to the 25th day of the succeeding month. It is proposed that, if prior approval of the Commission has been obtained, the contract would be eligible for a change of cost of service for the production for the month next following the month of repayment.

Appendix "B"

DETERMINATION 84-07 (TCP)
AMENDING DETERMINATION 83-10 (TCP)
ALBERTA COST OF SERVICE
NATURAL GAS PRICING AGREEMENT ACT

By Determination 83-10 (TCP) sub-categories D_1 and D_2 were established in the multi-tier Alberta cost of service of TransCanada PipeLines Limited (TransCanada) for gas purchase contracts under which repayment or waiver of take or pay payments occurred. Gas purchase contracts in these sub-categories attract no portion of Topgas or Topgas Two take or pay interest costs.

The Commission has advised TransCanada by letter dated March 7, 1984 to the effect that the Commission proposes to restrict access to sub-categories D_1 and D_2 to those gas purchase contracts included in these sub-categories at October 31, 1984. A submission from TransCanada on this proposal has been requested by April 15, 1984.

AMENDMENT

Determination 83-10 (TCP) is hereby amended to provide that for the period April 5, 1984 to October 31, 1984 inclusive no gas purchase contracts shall be added to sub-categories D_1 or D_2 without prior approval of the Commission.

DATED THIS 5th day of April, 1984 at Calgary, Alberta.

D. C. Hetland
Secretary and Solicitor

Alberta PETROLEUM MARKETING COMMISSION

DETERMINATION 84-30 (TCP)
ALBERTA COST OF SERVICE
NATURAL GAS PRICING AGREEMENT ACT

SUBMISSION

By letter dated March 7, 1984 the Commission requested that TransCanada PipeLines Limited ("TransCanada") make a submission in respect to the Commission's proposal to restrict access to Category D (now D_1, and D_2) to those contracts under which repayment of outstanding take or pay payments has been made by October 31, 1984. The Commission request is attached as Appendix "A".

The submission filed by TransCanada dated April 18, 1984 is attached as Appendix "B".

DECISION

Determinations 82-14 (TCP) and 83-10 (TCP) are amended to restrict access to Category D, now sub-categories D_1 and D_2, to those contracts for which application has been made prior to November 1, 1984 and which have been approved by the Commission, and under which:

(a) repayment of outstanding take or pay payments in full occurs by December 31, 1984, or

(b) full recovery of outstanding take or pay payments will occur pursuant to an accelerated recovery agreement entered into prior to November 1, 1984.

REASONS

The Commission's policy applicable to take or pay costs recovered through Alberta cost of service recognizes that flowing gas must bear the cost of financing payments for gas not taken. The basis for this position is extensively summarized in Determination 84-05 which stated in part:

> "The multi-tiered Alberta cost of service instituted by Determination 82-10 (TCP) and later replaced by Determination 82-14 (TCP) was considered by the Commission to be justified by the Topgas program which resulted in different financing arrangements with respect to take or pay payments made to participants and non-participants of the program. Topgas also resulted in assured recovery of take or pay payments made to the participants without increasing their share of market during the period of recovery. However, with the exception of Category D, the implementation of multi-tiers did not cause the Commission to deviate from the view that all gas being taken should bear the financing costs of payments made for gas not taken."

Further, in the same Determination the Commission stated:

> "Category D was established for Topgas participation for the limited purpose, perhaps misguided, of inducing a voluntary reduction in the amount of take or pay payments outstanding under Categories B and C contracts."

The Commission considers the $30 million refunded to date to be minimal when compared to the approximately $2.6 billion advanced under the Topgas and Topgas Two programs and is not convinced that expected benefit to producers overall has been achieved.

The Commission accepts in theory that the refund of take or pay payments should benefit producers through the reduction of carrying costs in the Alberta cost of service. TransCanada recognizes in its submission that one of the factors influencing a producer's decision to refund take or pay payments is the individual producer's cost/benefit considerations of take or pay outstanding under an individual contract relative to the level of deliveries under that contract. For this reason the Commission is concerned that refunds prompted when it is in the producer's individual economic interest to do so will usually be achieved at the expense of other producers. In the Commission's opinion there is little incentive for producers to voluntarily refund payments except in situations in which the repayment amount is proportionately small in relation to current and/or future production under that contract.

TransCanada also describes the methods by which a producer can increase deliverability leading to increased gas takes under its contract. Under increasing deliveries the producer becomes more likely to return prepayments in order to gain relief from an increased share of interest costs. A refund of prepayments and reclassification of the contract to Category D in such circumstances would work to the detriment of the producers remaining in the interest-bearing Topgas and Topgas Two categories.

Under market conditions precipitating past, current and possibly future take or pay payments any and all gas deliveries contribute, in some part, to the aggregate take or pay burden. The take or pay placed at the individual contract level however, is not necessarily proportional to gas delivery levels under that contract. The Commission considers it is inappropriate to continue with interest-free categories which allow a producer to avoid the aggregate take or pay burden especially when this can operate to the disadvantage of producers remaining in the interest-bearing categories.

In its submission, TransCanada contends that each dollar of take or pay refunded reduces TransCanada's risk of non-recovery of prepaid gas. Further, TransCanada maintains that interest-free categories serve as an inducement for producers with questionable reserves to negotiate accelerated recovery agreements with TransCanada. The Commission considers such risks to be of an operational nature and not appropriate for resolution through the maintenance of an interest-free category of cost of service.

DATED THIS 16th day of November, 1984 at Calgary, Alberta.

W. Murray Smith

W. Murray Smith
Secretary

Alberta PETROLEUM MARKETING COMMISSION

DETERMINATION 84-32 (TCP)
ALBERTA COST OF SERVICE
NATURAL GAS PRICING AGREEMENT ACT

APPLICATION

Pursuant to Determination 84-07 (TCP), TransCanada PipeLines Limited (TransCanada) requests Commission approval to add specified gas purchase contracts to sub-categories D_1 or D_2 of TransCanada's Alberta cost of service.

The application dated October 23, 1984 and amended by letters of November 26, 1984 and December 3, 1984 is attached as Appendix "A". Determination 84-07 (TCP) is attached as Appendix "B" and Determination 84-30 (TCP) is attached, without appendices, as Appendix "C".

DECISION

1. For the following contracts, the Commission approves entry to sub-category D_1, as applied for, on condition of repayment in full of all Topgas take or pay advances on or before December 31, 1984 and approves entry to sub-category D_2, as applied for, on condition of repayment in full of all Topgas Two take or pay advances on or before the same date:

Contract	Current Category	Requested Category
00026	B_1B_2	B_1D_2
00401	B_1B_2	B_1D_2
01006	B_1B_2	B_1D_2
02041	B_1B_2	D_1B_2

2. For the following contracts, the Commission approves entry to sub-category D_1, as applied for, and to sub-category D_2, as applied for, since the appropriate Topgas or Topgas Two take or pay advances have been refunded.

Contract	Current Category	Requested Category	Effective Date
01148	B_1D_2	D_1D_2	November 1984
01319	B_1D_2	D_1D_2	November 1984
01417	B_1D_2	D_1D_2	October 1984
01487	B_1B_2	D_1D_2	October 1984
01582	B_1D_2	D_1D_2	October 1984

3. Contract 01435, currently classified as B_1B_2, is allowed entry to Category B_1D_2 with effect from October 1984. Entry to Category D_1D_2 is denied.

4. Contract 01545, currently classified as B_1B_2, is allowed entry to Category B_1D_2 with effect from October 1984. Entry to Category D_1D_2 is denied.

5. Contract 01822, currently classified as B_1B_2, is allowed entry to Category B_1D_2 with effect from October 1984. Entry to Category D_1D_2 is denied.

REASONS

The Commission has reviewed TransCanada's application, filed before November 1, 1984, for the contracts cited above. Determination 84-30 (TCP) restricted access to sub-categories D_1 and D_2 to those contracts for which application has been made prior to November 1, 1984, which are subsequently approved by the Commission and under which outstanding take or pay payments have been repaid in full by December 31, 1984 or full recovery of the same will occur pursuant to an accelerated recovery agreement entered into prior to November 1, 1984.

The Commission has approved entry to interest free categories on the basis of the criteria previously established by Determinations 82-14 (TCP), 83-10 (TCP) and 83-06 (TCP). The criteria for entry to sub-category D_1 are receipt of a take or pay advance from Topgas and repayment of the advance in full after October 5, 1982. The criteria for entry to sub-category D_2 are receipt and repayment in full, after December 30, 1983, of take or pay advances from Topgas Two or waiving the advances to which the producer is entitled. However, the Commission, in Determination 83-06 (TCP), did not allow contracts in Category D upon repayment of the advances if such repayment was the result of gas deliveries in excess of the contract's prorata share of the market.

Advances made by Topgas under contract 01435 were recovered pursuant to an accelerated recovery agreement such that gas was taken in excess of the contract's prorata market share and accordingly does not qualify for entry to sub-category D_1.

Contract 01545 was not eligible for an advance from Topgas, therefore it does not qualify to be included in sub-category D_1.

Contract 01822 was not eligible for an advance from Topgas, therefore it does not qualify to be included in sub-category D_1.

DATED THIS 4th day of December, 1984, at Calgary, Alberta.

M R Pullam

M. R. Pullam
Acting Secretary

APPENDIX "A"

TransCanada PipeLines
TRANSCANADA PIPELINES TOWER 530 EIGHTH AVENUE S W
P.O BOX 500 STATION M CALGARY CANADA T2P 3V6
(403) 269 5611

October 23, 1984

Alberta Petroleum Marketing
Commission
1900, Bow Valley Square IV
250 - 6th Avenue S. W.
Calgary, Alberta
T2P 3H7

Attention: Mr. Murray Smith
Secretary

Dear Sir:

Determination 84-07(TCP) made by the Commission on April 5, 1984 provided for the period April 5, 1984 to October 31, 1984 inclusive, no gas purchase contracts shall be added to sub-categories D_1 or D_2 of TransCanada's Alberta cost of service without prior approval of the Commission.

Pursuant to Determination 84-07(TCP), TransCanada hereby requests the approval of the Commission to add to sub-category D_1 and D_2 of TransCanada's Alberta cost of service the following gas purchase contracts:

01319	01487
01148	00026
01822	00401
01435	01582
01545	01417
01006	02041

The pertinent information relative to each of the said contracts is set forth in the Schedule "A"s attached hereto.

Yours very truly

E.W.H. Mallabone
Manager, Legal
EWHM:ed
Encls.

SCHEDULE "A"

CONTRACT NO.: 00026 January 2, 1957

TOTAL PREPAID OUTSTANDING: $ 2 731 368.53 GJ 1 923 093

CONTRACT INFORMATION

INITIAL DELIVERY: January 29, 1959

ALBERTA COST OF SERVICE: B_1 B_2

PARTICIPANT TOPGAS: Yes $ 2 684 061.70 GJ 1 899 982

PARTICIPANT TOPGAS TWO: Yes $ 47 306.83 GJ 23 111

ANNUAL TAKES:

	Take Level	Production
1981/82	68.9 %	26 898.5 10^3m^3
1982/83	45.1 %	22 753.5 10^3m^3
1983/84	51.0 %	25 298.6 10^3m^3 (Projected)

TARGET RATE OF TAKE FOR ALLOCABLE CONTRACTS 51.0 %

REPAYMENT OF PREPAID:

The contract Seller intends to repay the total amount of the outstanding take or pay payments under the Topgas Two program in the amount of $47,306.83 and has requested that application be made to have the contract included in category B_1 D_2 of TransCanada's Alberta cost of service.

Under the terms of the Topgas program the Seller must give prior notice of repayment to TransCanada prior to the end of a month and the payment must then be made prior to the 25th day of the succeeding month. It is proposed that, if prior approval of the Commission has been obtained, the contract would be eligible for a change of cost of service for the production for the month next following the month of repayment.

SCHEDULE "A"

CONTRACT NO.: 00401 May 15, 1963

TOTAL PREPAID OUTSTANDING: $ 3 049 697.37 GJ 2 126 094

CONTRACT INFORMATION

INITIAL DELIVERY: December 6, 1978

ALBERTA COST OF SERVICE: B_1 B_2

PARTICIPANT TOPGAS: Yes $ 2 927 431.60 GJ 2 066 363

PARTICIPANT TOPGAS TWO: Yes $ 122 265.77 GJ 59 731

ANNUAL TAKES:	Take Level	Production
1981/82	82.2 %	125 011.8 10^3m^3
1982/83	59.4 %	89 168.0 10^3m^3
1983/84	51.0 %	75 919.8 10^3m^3 (Projected)

TARGET RATE OF TAKE FOR ALLOCABLE CONTRACTS 51.0 %

REPAYMENT OF PREPAID:

The contract Seller intends to repay the total amount of the outstanding take or pay payments under the Topgas Two program in the amount of $ 122 265.77 and has requested that application be made to have the contract included in category B_1 D_2 of TransCanada's Alberta cost of service.

Under the terms of the Topgas program the Seller must give prior notice of repayment to TransCanada prior to the end of a month and the payment must then be made prior to the 25th day of the succeeding month. It is proposed that, if prior approval of the Commission has been obtained, the contract would be eligible for a change of cost of service for the production for the month next following the month of repayment.

SCHEDULE "A"

CONTRACT NO.: 01006 December 7, 1970

TOTAL PREPAID OUTSTANDING: $ 2 224 881.39 GJ 1 547 796

CONTRACT INFORMATION

INITIAL DELIVERY: November 20, 1982

ALBERTA COST OF SERVICE: B_1B_2

PARTICIPANT TOPGAS:	Yes	$ 2 222 560.16	GJ	1 546 662
PARTICIPANT TOPGAS TWO:	Yes	$ 2 321.23	GJ	1 134

ANNUAL TAKES:	Take Level	Production	
1981/82	67.2 %	141 065.6	10^3m^3
1982/83	46.9 %	131 545.8	10^3m^3
1983/84	51.0 %	144 052.0	10^3m^3 (Projected)

TARGET RATE OF TAKE
FOR ALLOCABLE CONTRACTS 51.0 %

REPAYMENT OF PREPAID: The contract Seller intends to repay the total amount of the outstanding take or pay payments under the Topgas Two program in the amount of $2,321.23 and has requested that application be made to have the contract included in Category B_1D_2 of TransCanada's Alberta cost of service.

SCHEDULE "A"

CONTRACT NO.: 01148 June 28, 1973

TOTAL PREPAID OUTSTANDING: $ 131 353.26 GJ 100 334

CONTRACT INFORMATION

INITIAL DELIVERY: July 1, 1973

ALBERTA COST OF SERVICE: B_1 D_2

PARTICIPANT TOPGAS: Yes $ 131 353.26 GJ 100 334

PARTICIPANT TOPGAS TWO: Yes $ 0.00 GJ 0

ANNUAL TAKES:	Take Level		Production	
1981/82	136.2	%	13 235.4	10^3m^3
1982/83	48.9	%	5 297.3	10^3m^3
1983/84	51.0	%	5 547.0	10^3m^3 (Projected)

TARGET RATE OF TAKE FOR ALLOCABLE CONTRACTS 51.0 %

REPAYMENT OF PREPAID:

The contract Seller intends to repay the total amount of the outstanding take or pay payments and has requested that application be made to have the contract included in Category D_1 D_2 of TransCanada's Alberta cost of service.

Under the terms of the Topgas program the Seller must give prior notice of repayment to TransCanada prior to the end of a month and the payment must then be made prior to the 25th day of the succeeding month. It is proposed that, if prior approval of the Commission has been obtained, the contract would be eligible for a change of cost of service for the production for the month next following the month of repayment.

The Topgas Two payment under this contract was waived.

SCHEDULE "A"

CONTRACT NO.: 01319 July 11, 1974

TOTAL PREPAID OUTSTANDING: $ 442 551.94 GJ 315 664

CONTRACT INFORMATION

INITIAL DELIVERY: June 22, 1977

ALBERTA COST OF SERVICE: B_1 D_2

PARTICIPANT TOPGAS:	Yes	$ 442 551.94	GJ 315 664	
PARTICIPANT TOPGAS TWO:	Yes	$ 0.00	GJ 0	
ANNUAL TAKES:		**Take Level**	**Production**	
1981/82		69.3 %	3 541.9	10^3m^3
1982/83		45.3 %	2 361.3	10^3m^3
1983/84		51.0 %	2 458.0	10^3m^3 (Projected)

TARGET RATE OF TAKE FOR ALLOCABLE CONTRACTS 51.0 %

REPAYMENT OF PREPAID:

The contract Seller intends to repay the total amount of the outstanding take or pay payments and has requested that application be made to have the contract included in Category D_1 D_2 of TransCanada's Alberta cost of service.

Under the terms of the Topgas program the Seller must give prior notice of repayment to TransCanada prior to the end of a month and the payment must then be made prior to the 25th day of the succeeding month. It is proposed that, if prior approval of the Commission has been obtained, the contract would be eligible for a change of cost of service for the production for the month next following the month of repayment.

The Topgas Two payment under this contract was waived.

SCHEDULE "A"

CONTRACT NO.: 01417 October 18, 1974

TOTAL PREPAID OUTSTANDING: $ 46 421.50 GJ 35 459

CONTRACT INFORMATION

INITIAL DELIVERY:	November 22, 1974			
ALBERTA COST OF SERVICE:	B_1D_2			
PARTICIPANT TOPGAS:	Yes	$ 46 421.50	GJ	35 459
PARTICIPANT TOPGAS TWO:	Yes	$ 0.00		0

ANNUAL TAKES:

	Take Level	Production
1981/82	136.2 %	13 235.4 10^3m^3
1982/83	48.9 %	5 297.3 10^3m^3
1983/84	51.0 %	5 546.7 10^3m^3 (Projected)

TARGET RATE OF TAKE FOR ALLOCABLE CONTRACTS 51.0 %

REPAYMENT OF PREPAID:

The contract Seller intends to repay the total amount of the outstanding take or pay payments and has requested that application be made to have the contract included in Category D_1D_2 of TransCanada's Alberta cost of service.

Under the terms of the Topgas program the Seller must give prior notice of repayment to TransCanada prior to the end of a month and the payment must then be made prior to the 25th day of the succeeding month. It is proposed that, if prior approval of the Commission has been obtained, the contract would be eligible for a change of cost of service for the production for the month next following the month of repayment.

The Topgas Two payment under this contract was waived.

SCHEDULE "A"

CONTRACT NO.: 01435 November 6, 1974

TOTAL PREPAID OUTSTANDING: $ 2 558.68 GJ 1 250

CONTRACT INFORMATION

INITIAL DELIVERY: July 1, 1978

ALBERTA COST OF SERVICE: B_1 B_2

PARTICIPANT TOPGAS:	Yes	$ 0	GJ 0
PARTICIPANT TOPGAS TWO:	Yes	$ 2 558.68	GJ 1 250

ANNUAL TAKES:

	Take Level	Production	
1981/82	124.5 %	434.9	10^3m^3
1982/83	61.9 %	123.2	10^3m^3
1983/84	100.0 %	0.0	10^3m^3 (Projected)

TARGET RATE OF TAKE FOR ALLOCABLE CONTRACTS 51.0 %

REPAYMENT OF PREPAID:

The contract Seller has repaid the total amount of the outstanding take or pay payments and has requested that application be made to have the contract included in Category D_1 D_2 of TransCanada's Alberta cost of service.

Under the terms of the Topgas program the Seller must give prior notice of repayment to TransCanada prior to the end of a month and the payment must then be made prior to the 25th day of the succeeding month. It is proposed that, if prior approval of the Commission has been obtained, the contract would be eligible for a change of cost of service for the production for the month next following the month of repayment.

Prepaid gas was incurred under this contract in 1978/79, 1979/80 and 1980/81. Pursuant to the terms of an accelerated recovery agreement, the outstanding Topgas prepayment ($50,415.82 - 37 125 GJ) was fully recovered prior to January 1983.

SCHEDULE "A"

CONTRACT NO.: 01487 February 27, 1975

TOTAL PREPAID OUTSTANDING: $ 26 073.72 GJ 15 774

CONTRACT INFORMATION

INITIAL DELIVERY:	November 19, 1976				
ALBERTA COST OF SERVICE:	B_1 B_2				
PARTICIPANT TOPGAS:	Yes	$ 21 062.81		GJ 13 326	
PARTICIPANT TOPGAS TWO:	Yes	$ 5 010.91		GJ 2 448	
ANNUAL TAKES:		Take Level		Production	
1981/82		67.5	%	519.4	10^3m^3
1982/83		57.1	%	160.4	10^3m^3
1983/84		75.0	%	10.0	10^3m^3 (Projected)

TARGET RATE OF TAKE FOR ALLOCABLE CONTRACTS 51.0 %

REPAYMENT OF PREPAID:

The contract Seller intends to repay the total amount of the outstanding take or pay payments and has requested that application be made to have the contract included in Category D_1 D_2 of TransCanada's Alberta cost of service.

Under the terms of the Topgas program the Seller must give prior notice of repayment to TransCanada prior to the end of a month and the payment must then be made prior to the 25th day of the succeeding month. It is proposed that, if prior approval of the Commission has been obtained, the contract would be eligible for a change of cost of service for the production for the month next following the month of repayment.

SCHEDULE "A"

NTRACT NO.: 01545 July 11, 1975

TAL PREPAID OUTSTANDING: $ 13 683.79 GJ 6685

NTRACT INFORMATION

IITIAL DELIVERY: October 1, 1976

.BERTA COST OF SERVICE: B_1 B_2

ARTICIPANT TOPGAS: Yes $ 0 GJ 0

ARTICIPANT TOPGAS TWO: Yes $ 13 683.79 GJ 6 685

NNUAL TAKES:

	Take Level	Production
1981/82	90.2 %	2 301.2 10^3m^3
1982/83	49.5 %	1 078.6 10^3m^3
1983/84	51.0 %	0.0 10^3m^3 (Projected)

TARGET RATE OF TAKE FOR ALLOCABLE CONTRACTS 51.0 %

REPAYMENT OF PREPAID:

The contract Seller intends to repay the total amount of the outstanding take or pay payments and has requested that application be made to have the contract included in Category D_1 D_2 of TransCanada's Alberta cost of service.

Under the terms of the Topgas program the Seller must give prior notice of repayment to TransCanada prior to the end of a month and the payment must then be made prior to the 25th day of the succeeding month. It is proposed that, if prior approval of the Commission has been obtained, the contract would be eligible for a change of cost of service for the production for the month next following the month of repayment.

A TransCanada prepayment was made under this contract for the 1977/78 contract year in the amount of $113,177.16 (97 715 GJ). This contract was considered to be a possible deficient contract and the prepaid gas was recovered in full by October, 1984. No prepaid was incurred in 1981/82 and no Topgas payment was made.

SCHEDULE "A"

CONTRACT NO.: 01582

TOTAL PREPAID OUTSTANDING: $ 165 010.97 GJ 104 399

CONTRACT INFORMATION

INITIAL DELIVERY: August 11, 1977

ALBERTA COST OF SERVICE: B_1 D_2

PARTICIPANT TOPGAS:	Yes	$ 165 010.97	GJ 104 399
PARTICIPANT TOPGAS TWO:	Yes	$ 0.00	GJ 0

ANNUAL TAKES:

	Take Level	Production
1981/82	47.2 %	4 141.5 10^3m^3
1982/83	44.0 %	2 813.1 10^3m^3
1983/84	72.0 %	4 807.0 10^3m^3 (Projected)

TARGET RATE OF TAKE FOR ALLOCABLE CONTRACTS 51.0 %

REPAYMENT OF PREPAID:

The contract Seller intends to repay the total amount of the outstanding take or pay payments and has requested that application be made to have the contract included in Category D_1 D_2 of TransCanada's Alberta cost of service.

Under the terms of the Topgas program the Seller must give prior notice of repayment to TransCanada prior to the end of a month and the payment must then be made prior to the 25th day of the succeeding month. It is proposed that, if prior approval of the Commission has been obtained, the contract would be eligible for a change of cost of service for the production for the month next following the month of repayment.

The Topgas Two payment under this contract was waived.

SCHEDULE "A"

CONTRACT NO.: 01822 June 17, 1976

TOTAL PREPAID OUTSTANDING: $ 12 398.32 GJ 6 057

CONTRACT INFORMATION

INITIAL DELIVERY: January 18, 1977

ALBERTA COST OF SERVICE: B_1 B_2

PARTICIPANT TOPGAS: Yes $ 0 GJ 0

PARTICIPANT TOPGAS TWO: Yes $ 12 398.32 GJ 6 057

ANNUAL TAKES:

	Take Level	Production
1981/82	101.0 %	1 426.3 10^3m^3
1982/83	36.6 %	128.9 10^3m^3
1983/84	75.0 %	229.0 10^3m^3 (Projected)

TARGET RATE OF TAKE FOR ALLOCABLE CONTRACTS 51.0 %

REPAYMENT OF PREPAID:

The contract Seller has repaid the total amount of the outstanding take or pay payments and has requested that application be made to have the contract included in Category D_1 D_2 of TransCanada's Alberta cost of service.

Under the terms of the Topgas program the Seller must give prior notice of repayment to TransCanada prior to the end of a month and the payment must then be made prior to the 25th day of the succeeding month. It is proposed that, if prior approval of the Commission has been obtained, the contract would be eligible for a change of cost of service for the production for the month next following the month of repayment.

A TransCanada prepayment was made under this contract for the 1977/78 contract year in the amount of $6,508.10 (5618 GJ). This contract was considered to be a possible deficient contract and the prepaid gas was recovered in full by December, 1980. No prepaid gas was incurred in 1981/82 and no Topgas payment was made.

SCHEDULE "A"

CONTRACT NO.: 02041 June 23, 1977

TOTAL PREPAID OUTSTANDING: $ 69 660.18 GJ 34 711

CONTRACT INFORMATION

INITIAL DELIVERY: November 1, 1978

ALBERTA COST OF SERVICE: B_1B_2

PARTICIPANT TOPGAS:	Yes	$	4 714.87	GJ	2 983
PARTICIPANT TOPGAS TWO:	Yes	$	64 945.31	GJ	31 728

ANNUAL TAKES:	Take Level	Production
1981/82	97.1 %	1 560.1 10^3m^3
1982/83	27.8 %	722.9 10^3m^3
1983/84	66.0 %	1 688.0 10^3m^3 (Projected)

TARGET RATE OF TAKE FOR ALLOCABLE CONTRACTS 51.0 %

REPAYMENT OF PREPAID: The contract Seller intends to repay the total amount of the outstanding take or pay payments under the Topgas program in the amount of $4,714.87 and has requested that application be made to have the contract included in Category D_1B_2 of TransCanada's Alberta cost of service.

The average take level for the two contract years, 1981/82 and 1982/83, was averaged at 62%.

TransCanada PipeLines
TRANSCANADA PIPELINES TOWER, 530 EIGHTH AVENUE S.W.
P.O. BOX 500, STATION M, CALGARY, CANADA T2P 3V6
(403) 269-5611

November 26, 1984

Alberta Petroleum Marketing
Commission
1900, Bow Valley Square IV
250 - 6th Avenue S. W.
Calgary, Alberta
T2P 3H7

Attention: V.M. Thomas

Dear Sir:

Re: Application October 23, 1984
Contracts 01435 and 01545

In reply to your letter of November 19, 1984 (copy attached), it would appear that your reference and question relating to Contract 01435 was meant to be to Contract 01545 and vice versa.

Our application relating to Contract 01435 indicated that the level of take in the 1981/82 contract year was 124.5%. In 1981/82 there was an attempt to recover outstanding prepaid under the terms of the contract but it would appear that this contract did receive greater than its prorata share of the market.

Our application relating to Contract 01545 indicated that the level of take in the 1981/82 contract year was 90.2%. In 1981/82 there was an attempt to recover outstanding prepaid under the terms of the contract but it would appear that this contract did receive greater than its prorata share of the market.

Yours truly

E.W.H. Mallabone
Manager, Legal
EWHM:ed
Encl.

Alberta PETROLEUM MARKETING COMMISSION

1900, 250 Sixth Avenue S.W., Calgary, Alberta, Canada T2P 3H7 Telex 03-821978 (403) 297-5500

November 19, 1984

TransCanada PipeLines
TransCanada PipeLines Tower
530, Eighth Avenue S.W.
Calgary, Alberta
T2P 3V6

Attention: Mr. E. W. H. Mallabone
Manager, Legal

Dear Sir:

The Commission has received your letter dated October 23, 1984 and has the following question regarding the indicated contract's inclusion in category D1D2 of your Alberta cost of service:

Contract 01435
Current Category: B1B2
Requested Category: D1D2

Your application indicated that the TransCanada prepayment was fully recovered prior to October 1984 and that the level of take in the 1981/82 contract year was 90.2%. Please indicate if the prepaid gas was recovered by taking deliveries from the producer in excess of his prorata share of the market.

Contract 01545
Current Category: B1B2
Requested Category: D1D2

Your application indicates that the Topgas prepayment was fully recovered prior to January 1983 and that the level of take in the 1981/82 contract year was 124.5%. Please indicate if prepaid gas was recovered by taking deliveries from the producer in excess of his prorata share of the market.

Your early attention to this matter is appreciated.

Yours very truly,

ALBERTA PETROLEUM MARKETING COMMISSION

V. M. Thomas
General Manager,
Natural Gas

TransCanada PipeLines
TRANSCANADA PIPELINES TOWER 530 EIGHTH AVENUE S.W.
P.O. BOX 500 STATION M CALGARY CANADA T2P 3V6
(403) 269 5611

December 3, 1984

Alberta Petroleum Marketing Commission
1900, Bow Valley Square IV
250 - 6th Avenue S. W.
Calgary, Alberta
T2P 3H7

Attention: W. A. McKain

Dear Sir:

In reply to your letter of November 27, 1984 regarding Contract No. 01435 and the repayment of $2588.68 in respect of the Topgas II prepayment, this prepayment was not made pursuant to an accelerated recovery agreement under which gas was taken in excess of its prorata market share but was an advance repaid by actually returning the cash advanced.

Yours very truly

Mallabone

E.W.H. Mallabone
Manager, Legal
EWHM:ed

TransCanada PipeLines
TRANSCANADA PIPELINES TOWER 530 EIGHTH AVENUE S.W.
P.O. BOX 500 STATION M CALGARY, CANADA T2P 3V6
(403) 269 5611

December 3, 1984

Alberta Petroleum Marketing Commission
1900, Bow Valley Square IV
250 - 6th Avenue S. W.
Calgary, Alberta
T2P 3H7

Attention: W. A. McKain

Dear Sir:

In reply to your recent request relating to the repayment under certain gas purchase contracts set forth below are contracts in which monies have been returned, the date that the money was returned, the date that the contract would be eligible for a new cost of service category and the program to which the monies were applied.

Contracts that have already returned their outstanding take or pay to Topgas/Topgas II - October 23, 1984 Application:

Contract No.	Date Returned	Date Eligible for Price Change	Program
01148	84-10-25	November	Topgas
01319	84-10-25	November	Topgas
01417	84-09-25	October	Topgas
01435	84-09-25	October	Topgas II
01487	84-09-25	October	Topgas/Topgas II
01545	84-09-25	October	Topgas II
01582	84-09-25	October	Topgas
01822	84-09-25	October	Topgas II

Yours very truly

Mallabone

E.W.H. Mallabone
Manager, Legal
EWHM:ed

Appendix "B"

DETERMINATION 84-07 (TCP)
AMENDING DETERMINATION 83-10 (TCP)
ALBERTA COST OF SERVICE
NATURAL GAS PRICING AGREEMENT ACT

By Determination 83-10 (TCP) sub-categories D_1 and D_2 were established in the multi-tier Alberta cost of service of TransCanada PipeLines Limited (TransCanada) for gas purchase contracts under which repayment or waiver of take or pay payments occurred. Gas purchase contracts in these sub-categories attract no portion of Topgas or Topgas Two take or pay interest costs.

The Commission has advised TransCanada by letter dated March 7, 1984 to the effect that the Commission proposes to restrict access to sub-categories D_1 and D_2 to those gas purchase contracts included in these sub-categories at October 31, 1984. A submission from TransCanada on this proposal has been requested by April 15, 1984.

AMENDMENT

Determination 83-10 (TCP) is hereby amended to provide that for the period April 5, 1984 to October 31, 1984 inclusive no gas purchase contracts shall be added to sub-categories D_1 or D_2 without prior approval of the Commission.

DATED THIS 5th day of April, 1984 at Calgary, Alberta.

D. C. Hetland
Secretary and Solicitor

Alberta PETROLEUM MARKETING COMMISSION

DETERMINATION 84-30 (TCP)
ALBERTA COST OF SERVICE
NATURAL GAS PRICING AGREEMENT ACT

SUBMISSION

By letter dated March 7, 1984 the Commission requested that TransCanada PipeLines Limited ("TransCanada") make a submission in respect to the Commission's proposal to restrict access to Category D (now D_1, and D_2) to those contracts under which repayment of outstanding take or pay payments has been made by October 31, 1984. The Commission request is attached as Appendix "A".

The submission filed by TransCanada dated April 18, 1984 is attached as Appendix "B".

DECISION

Determinations 82-14 (TCP) and 83-10 (TCP) are amended to restrict access to Category D, now sub-categories D_1 and D_2, to those contracts for which application has been made prior to November 1, 1984 and which have been approved by the Commission, and under which:

(a) repayment of outstanding take or pay payments in full occurs by December 31, 1984, or

(b) full recovery of outstanding take or pay payments will occur pursuant to an accelerated recovery agreement entered into prior to November 1, 1984.

REASONS

The Commission's policy applicable to take or pay costs recovered through Alberta cost of service recognizes that flowing gas must bear the cost of financing payments for gas not taken. The basis for this position is extensively summarized in Determination 84-05 which stated in part:

> "The multi-tiered Alberta cost of service instituted by Determination 82-10 (TCP) and later replaced by Determination 82-14 (TCP) was considered by the Commission to be justified by the Topgas program which resulted in different financing arrangements with respect to take or pay payments made to participants and non-participants of the program. Topgas also resulted in assured recovery of take or pay payments made to the participants without increasing their share of market during the period of recovery. However, with the exception of Category D, the implementation of multi-tiers did not cause the Commission to deviate from the view that all gas being taken should bear the financing costs of payments made for gas not taken."

Further, in the same Determination the Commission stated:

> "Category D was established for Topgas participation for the limited purpose, perhaps misguided, of inducing a voluntary reduction in the amount of take or pay payments outstanding under Categories B and C contracts."

The Commission considers the $30 million refunded to date to be minimal when compared to the approximately $2.6 billion advanced under the Topgas and Topgas Two programs and is not convinced that expected benefit to producers overall has been achieved.

The Commission accepts in theory that the refund of take or pay payments should benefit producers through the reduction of carrying costs in the Alberta cost of service. TransCanada recognizes in its submission that one of the factors influencing a producer's decision to refund take or pay payments is the individual producer's cost/benefit considerations of take or pay outstanding under an individual contract relative to the level of deliveries under that contract. For this reason the Commission is concerned that refunds prompted when it is in the producer's individual economic interest to do so will usually be achieved at the expense of other producers. In the Commission's opinion there is little incentive for producers to voluntarily refund payments except in situations in which the repayment amount is proportionately small in relation to current and/or future production under that contract.

TransCanada also describes the methods by which a producer can increase deliverability leading to increased gas takes under its contract. Under increasing deliveries the producer becomes more likely to return prepayments in order to gain relief from an increased share of interest costs. A refund of prepayments and reclassification of the contract to Category D in such circumstances would work to the detriment of the producers remaining in the interest-bearing Topgas and Topgas Two categories.

Under market conditions precipitating past, current and possibly future take or pay payments any and all gas deliveries contribute, in some part, to the aggregate take or pay burden. The take or pay placed at the individual contract level however, is not necessarily proportional to gas delivery levels under that contract. The Commission considers it is inappropriate to continue with interest-free categories which allow a producer to avoid the aggregate take or pay burden especially when this can operate to the disadvantage of producers remaining in the interest-bearing categories.

In its submission, TransCanada contends that each dollar of take or pay refunded reduces TransCanada's risk of non-recovery of prepaid gas. Further, TransCanada maintains that interest-free categories serve as an inducement for producers with questionable reserves to negotiate accelerated recovery agreements with TransCanada. The Commission considers such risks to be of an operational nature and not appropriate for resolution through the maintenance of an interest-free category of cost of service.

DATED THIS 16th day of November, 1984 at Calgary, Alberta.

W. Murray Smith
Secretary

Alberta PETROLEUM MARKETING COMMISSION

DETERMINATION 84-33 (TCP)
ALBERTA COST OF SERVICE
NATURAL GAS PRICING AGREEMENT ACT

APPLICATION

Pursuant to Determination 84-07 (TCP), TransCanada PipeLines Limited (TransCanada) requests Commission approval to add specified gas purchase contracts to sub-categories D_1 or D_2 of TransCanada's Alberta cost of service.

The application dated October 30, 1984 and amended by letter of November 26, 1984 is attached as Appendix "A". Determination 84-07 (TCP) is attached as Appendix "B" and Determination 84-30 (TCP) is attached, without appendices, as Appendix "C".

DECISION

1. For contract 02617, currently classified as Category B_1B_2, the Commission approves entry to Category B_1D_2, as applied for, on condition of repayment in full of Topgas Two take or pay advances on or before December 31, 1984.

2. For contract 01168 and 01787, both currently in Category B_1B_2, the Commission approves entry into Category D_1D_2, as applied for, on condition of repayment in full of Topgas and Topgas Two take or pay advances on or before December 31, 1984.

3. Contract 02023, currently classified as B_1B_3, is allowed entry to Category D_1B_3, as applied for, on condition of repayment in full of of its outstanding Topgas advances.

REASONS

The Commission has reviewed TransCanada's application, filed prior to November 1, 1984, for the contracts cited above. Determination 84-30 (TCP) restricted access to sub-categories D_1 and D_2 to those contracts for which application has been made prior to November 1, 1984, which are subsequently approved by the Commission and under which outstanding take or pay payments have been repaid in full by December 31, 1984 or full recovery of the same will occur pursuant to an accelerated recovery agreement entered into prior to November 1, 1984.

The Commission has approved entry to interest free categories on the basis of the criteria previously established by Determinations 82-14 (TCP), 83-10 (TCP) and 83-06 (TCP). The criteria for entry to sub-category D_1 are receipt of a take or pay advance from Topgas and repayment of the advance in full after October 5, 1982. The criteria for entry to sub-category D_2 are receipt and repayment in full, after December 30, 1983, of take or pay advances from Topgas Two or waiving the advances to which the producer is entitled. However, the Commission, in Determination 83-06 (TCP), did not allow contracts in Category D upon repayment of the advances if such repayment was the result of gas deliveries in excess of the contract's prorata share of the market.

Contract 02023 received take or pay advances from Topgas. The Commission considers the proposed method of repaying these advances, in three monthly installments, to be a form of accelerated recovery pursuant to an agreement entered into prior to November 1, 1984. So long as gas is not taken in excess of the contract's prorata market share, the Commission considers this method to be consistent with Determination 84-30 (TCP) and the contract qualified for entry to sub-category D_1.

DATED THIS 30th day of November, 1984, at Calgary, Alberta.

W. Murray Smith

W. Murray Smith
Secretary

Appendix "A"

TransCanada PipeLines
TRANSCANADA PIPELINES TOWER 530 EIGHTH AVENUE S.W.
P.O. BOX 500 STATION M. CALGARY, CANADA T2P 3V6
(403) 269 5611

October 30, 1984

Alberta Petroleum Marketing
Commission
1900, Bow Valley Square IV
250 - 6th Avenue S.W.
Calgary, Alberta
T2P 3H7

Attention: Mr. Murray Smith

Dear Sir:

Determination 84-07(TCP) made by the Commission on April 5, 1984 provided for the period April 5, 1984 to October 31, 1984 inclusive, no gas purchase contracts shall be added to sub-categories D_1D_2 of TransCanada's Alberta cost of service with prior approval of the Commission.

Pursuant to Determination 84-07(TCP), TransCanada hereby requests the approval of the Commission to add to sub-category D_1D_2 of TransCanada's Alberta cost of service the following gas purchase contracts:

01168
01787
02023
02617

The pertinent information relative to each of the said contracts is set forth in the Schedule "A"s attached hereto.

Yours very truly

E.W.H. Mallabone
Manager, Legal
EWHM:ed
Encls.

SCHEDULE "A"

CONTRACT NO.: 01168 September 13, 1973

TOTAL PREPAID OUTSTANDING: $ 598 769.27 GJ 373 106

CONTRACT INFORMATION

INITIAL DELIVERY: May 28, 1974

ALBERTA COST OF SERVICE: B_1B_2

PARTICIPANT TOPGAS:	Yes	$ 427 243.89	GJ	289 310
PARTICIPANT TOPGAS TWO:	Yes	$ 171 525.38	GJ	83 796

ANNUAL TAKES:	Take Level	Production
1981/82	67.6 %	9 910.4 10^3m^3
1982/83	44.8 %	4 334.6 10^3m^3
1983/84	59.4 %	1 764.8 10^3m^3 (Projected)

TARGET RATE OF TAKE
FOR ALLOCABLE CONTRACTS 51.0 %

REPAYMENT OF PREPAID:

Seller has repaid the total amount of the outstanding take or pay payments under this contract and has requested that application be made to have the contract included in Category D_1D_2 of TransCanada's Alberta cost of service.

SCHEDULE "A"

CONTRACT NO.: 01787 May 27, 1976

TOTAL PREPAID OUTSTANDING: $ 237 313.75 GJ 161 231

CONTRACT INFORMATION

INITIAL DELIVERY: November 19, 1976

ALBERTA COST OF SERVICE: B_1B_2

PARTICIPANT TOPGAS: Yes $ 217 898.52 GJ 151 746

PARTICIPANT TOPGAS TWO: Yes $ 19 415.23 GH 9 485

ANNUAL TAKES:	Take Level		Production	
1981/82	59.7	%	2 596.5	10^3m^3
1982/83	60.2	%	802.1	10^3m^3
1983/84	62.8	%	365.0	10^3m^3 (Projected)

TARGET RATE OF TAKE
FOR ALLOCABLE CONTRACTS 51.0 %

REPAYMENT OF PREPAID:

Recovery of the total outstanding take or pay payments has been effected under an arrangement for recovery of gas from production under another contract. Seller has requested that application be made to have the contract included in category D_1D_2 of TransCanada's Alberta cost of service.

SCHEDULE "A"

CONTRACT NO.: 02023 June 2, 1977

TOTAL PREPAID OUTSTANDING: $ 51 834.15 GJ 32 850

CONTRACT INFORMATION

INITIAL DELIVERY: November 9, 1979

ALBERTA COST OF SERVICE: B_1B_3

PARTICIPANT TOPGAS: Yes $ 46 110.91 GJ 30 054

PARTICIPANT TOPGAS TWO: No $ 5 723.24 GJ 2 796 TCPL

ANNUAL TAKES:	Take Level		Production	
1981/82	76.3	%	1 728.7	10^3m^3
1982/83	71.1	%	1 267.0	10^3m^3
1983/84	64.7	%	729.9	10^3m^3 (Projected

TARGET RATE OF TAKE
FOR ALLOCABLE CONTRACTS 51.0 %

REPAYMENT OF PREPAID:

Seller has agreed to repay the total amount of the outstanding take or pay payments under this contract by three equal installment payments in the months of November and December, 1984 and January, 1985.

It is proposed that this contract, upon satisfaction of total recovery of outstanding take or pay, be eligible for inclusion to Category D_1B_3 of TransCanada's Alberta cost of service.

SCHEDULE "A"

CONTRACT NO.: 02617 July 22, 1971

TOTAL PREPAID OUTSTANDING: $ 2 730 412.45 GJ 1 866 015

CONTRACT INFORMATION

INITIAL DELIVERY: October 25, 1983

ALBERTA COST OF SERVICE: B_1B_2

PARTICIPANT TOPGAS:	Yes	$ 2 562 889.52	GJ 1 784 169
PARTICIPANT TOPGAS TWO:	Yes	$ 167 522.93	GJ 81 846

ANNUAL TAKES:

	Take Level		Production	
1981/82	NA	%	NA	10^3m^3
1982/83	48.6	%	28 678.4	10^3m^3
1983/84	51.0	%	44 320.8	10^3m^3 (Projected)

TARGET RATE OF TAKE
FOR ALLOCABLE CONTRACTS 51.0 %

REPAYMENT OF PREPAID:

Seller intends to repay the total outstanding take or pay payments under the Topgas Two Program and has requested that application be made to have the contract included in Category B_1D_2 of TransCanada's Alberta cost of service.

TransCanada PipeLines
TRANSCANADA PIPELINES TOWER 530 EIGHTH AVENUE S W
P O BOX 500 STATION M CALGARY CANADA T2P 3V6
(403) 269 5611

November 26, 1984

Alberta Petroleum Market
Commission
1900, Bow Valley Square IV
250 - 6th Avenue S. W.
Calgary, Alberta
T2P 3H7

Attention: V.M. Thomas
General Manager
Natural Gas

Dear Sir:

Re: Application October 30, 1984
Contract no. 1787

In reply to your letter of November 19, 1984 (copy attached), please be advised that the prepaid gas recovered by taking gas from the producer was from production under another contract and that other contract did not receive greater than its pro rata share of the market (and was in fact allocated).

Our cover letter for the noted application should read

> "Pursuant to Determination 84-07(TCP), TransCanada hereby requests the approval of the Commission to add to subcategories D_1 or D_2 of TransCanada's Alberta cost of service the following gas purchase contracts:"

Yours truly

E.W.H. Mallabone
Manager, Legal
EWHM:ed
Encl.

Alberta PETROLEUM MARKETING COMMISSION

1900, 250 Sixth Avenue S.W., Calgary, Alberta, Canada T2P 3H7 Telex 03-821978 (403) 297-5500

November 19, 1984

TransCanada PipeLines
TransCanada PipeLines Tower
530, Eighth Avenue S.W.
Calgary, Alberta
T2P 3V6

Attention: Mr. E. W. H. Mallabone
Manager, Legal

Dear Sir:

The Commission has received your letter dated October 30, 1984 and has the following question regarding the indicated contract's inclusion in sub-category D1D2 of your Alberta cost of service:

Contract 1787
Current Category: B1B2
Requested Category: D1D2

Your application indicates that that the prepaid gas incurred under this contract has been recovered from production under another contract. Please indicate if prepaid gas was recovered by taking gas from the producer in excess of his prorata share of the market.

The Commission further requests clarification of the apparent contradiction between the statement in your cover letter that the four contracts indicated are to be added to category D1D2 while the individual statements on the attached Schedule "A" indicate that contract 2617 is to be included in category B1D2 and contract 2023 is to be included in category D1B3.

Your early attention to this matter is appreciated.

Yours very truly,

ALBERTA PETROLEUM MARKETING COMMISSION

V. M. Thomas
General Manager,
Natural Gas

SCHEDULE "A"

CONTRACT NO.: 02617 July 22, 1971

TOTAL PREPAID OUTSTANDING: $ 2 730 412.45 GJ 1 866 015

CONTRACT INFORMATION

INITIAL DELIVERY: September 13, 1973

ALBERTA COST OF SERVICE: B_1B_2

PARTICIPANT TOPGAS:	Yes	$ 2 562 889.52	GJ 1 784 169
PARTICIPANT TOPGAS TWO:	Yes	$ 167 522.93	GJ 81 846

ANNUAL TAKES:	Take Level		Production	
1981/82	NA	%	NA	10^3m^3
1982/83	48.6	%	28 678.4	10^3m^3
1983/84	51.0	%	44 320.8	10^3m^3 (Projectec

TARGET RATE OF TAKE
FOR ALLOCABLE CONTRACTS 51.0 %

REPAYMENT OF PREPAID:

Seller intends to repay the total outstanding take or pay payments under the Topgas Two Program and has requested that application be made to have the contract included in Category B_1D_2 of TransCanada's Alberta cost of service.

Nov. 6/84

Mark Kruger:
Schedule "A" replacement
for Contract No. 02617
enclosed in Oct. 30, 1984
letter to APMC

E.W.H. MALLABONE
TRANSCANADA

Appendix "B"

DETERMINATION 84-07 (TCP)
AMENDING DETERMINATION 83-10 (TCP)
ALBERTA COST OF SERVICE
NATURAL GAS PRICING AGREEMENT ACT

By Determination 83-10 (TCP) sub-categories D_1 and D_2 were established in the multi-tier Alberta cost of service of TransCanada PipeLines Limited (TransCanada) for gas purchase contracts under which repayment or waiver of take or pay payments occurred. Gas purchase contracts in these sub-categories attract no portion of Topgas or Topgas Two take or pay interest costs.

The Commission has advised TransCanada by letter dated March 7, 1984 to the effect that the Commission proposes to restrict access to sub-categories D_1 and D_2 to those gas purchase contracts included in these sub-categories at October 31, 1984. A submission from TransCanada on this proposal has been requested by April 15, 1984.

AMENDMENT

Determination 83-10 (TCP) is hereby amended to provide that for the period April 5, 1984 to October 31, 1984 inclusive no gas purchase contracts shall be added to sub-categories D_1 or D_2 without prior approval of the Commission.

DATED THIS 5th day of April, 1984 at Calgary, Alberta.

D. C. Hetland
Secretary and Solicitor

Alberta PETROLEUM MARKETING COMMISSION

DETERMINATION 84-30 (TCP)
ALBERTA COST OF SERVICE
NATURAL GAS PRICING AGREEMENT ACT

SUBMISSION

By letter dated March 7, 1984 the Commission requested that TransCanada PipeLines Limited ("TransCanada") make a submission in respect to the Commission's proposal to restrict access to Category D (now D_1, and D_2) to those contracts under which repayment of outstanding take or pay payments has been made by October 31, 1984. The Commission request is attached as Appendix "A".

The submission filed by TransCanada dated April 18, 1984 is attached as Appendix "B".

DECISION

Determinations 82-14 (TCP) and 83-10 (TCP) are amended to restrict access to Category D, now sub-categories D_1 and D_2, to those contracts for which application has been made prior to November 1, 1984 and which have been approved by the Commission, and under which:

(a) repayment of outstanding take or pay payments in full occurs by December 31, 1984, or

(b) full recovery of outstanding take or pay payments will occur pursuant to an accelerated recovery agreement entered into prior to November 1, 1984.

REASONS

The Commission's policy applicable to take or pay costs recovered through Alberta cost of service recognizes that flowing gas must bear the cost of financing payments for gas not taken. The basis for this position is extensively summarized in Determination 84-05 which stated in part:

> "The multi-tiered Alberta cost of service instituted by Determination 82-10 (TCP) and later replaced by Determination 82-14 (TCP) was considered by the Commission to be justified by the Topgas program which resulted in different financing arrangements with respect to take or pay payments made to participants and non-participants of the program. Topgas also resulted in assured recovery of take or pay payments made to the participants without increasing their share of market during the period of recovery. However, with the exception of Category D, the implementation of multi-tiers did not cause the Commission to deviate from the view that all gas being taken should bear the financing costs of payments made for gas not taken."

Further, in the same Determination the Commission stated:

> "Category D was established for Topgas participation for the limited purpose, perhaps misguided, of inducing a voluntary reduction in the amount of take or pay payments outstanding under Categories B and C contracts."

The Commission considers the $30 million refunded to date to be minimal when compared to the approximately $2.6 billion advanced under the Topgas and Topgas Two programs and is not convinced that expected benefit to producers overall has been achieved.

The Commission accepts in theory that the refund of take or pay payments should benefit producers through the reduction of carrying costs in the Alberta cost of service. TransCanada recognizes in its submission that one of the factors influencing a producer's decision to refund take or pay payments is the individual producer's cost/benefit considerations of take or pay outstanding under an individual contract relative to the level of deliveries under that contract. For this reason the Commission is concerned that refunds prompted when it is in the producer's individual economic interest to do so will usually be achieved at the expense of other producers. In the Commission's opinion there is little incentive for producers to voluntarily refund payments except in situations in which the repayment amount is proportionately small in relation to current and/or future production under that contract.

TransCanada also describes the methods by which a producer can increase deliverability leading to increased gas takes under its contract. Under increasing deliveries the producer becomes more likely to return prepayments in order to gain relief from an increased share of interest costs. A refund of prepayments and reclassification of the contract to Category D in such circumstances would work to the detriment of the producers remaining in the interest-bearing Topgas and Topgas Two categories.

Under market conditions precipitating past, current and possibly future take or pay payments any and all gas deliveries contribute, in some part, to the aggregate take or pay burden. The take or pay placed at the individual contract level however, is not necessarily proportional to gas delivery levels under that contract. The Commission considers it is inappropriate to continue with interest-free categories which allow a producer to avoid the aggregate take or pay burden especially when this can operate to the disadvantage of producers remaining in the interest-bearing categories.

In its submission, TransCanada contends that each dollar of take or pay refunded reduces TransCanada's risk of non-recovery of prepaid gas. Further, TransCanada maintains that interest-free categories serve as an inducement for producers with questionable reserves to negotiate accelerated recovery agreements with TransCanada. The Commission considers such risks to be of an operational nature and not appropriate for resolution through the maintenance of an interest-free category of cost of service.

DATED THIS 16th day of November, 1984 at Calgary, Alberta.

W. Murray Smith

W. Murray Smith
Secretary

1900, 250 Sixth Avenue S.W., Calgary, Alberta, Canada T2P 3H7 Telex 03-821978 (403) 297-5500

December 31, 1984

2 INFORMATION BULLETIN RE ALBERTA COST OF SERVICE

The Alberta Cost of Service Information Bulletin for the month of November 1984 is attached.

The Information Bulletin consists of:

1. Copies of any special Orders or Determinations issued by the Commission during the month with respect to Alberta Cost of Service, and notice of any Statements of Objection which have been received during the month; and

2. Alberta Cost of Service Determinations for the month.

In the case of gas intended to be removed from Alberta, the cost of service determined under Section 11(1), 15(3)(a) and 15(5)(b)(i) of the Natural Gas Pricing Agreement Act for each month is based on estimated figures for that month, adjusted to allow for differences between the estimated and actual figures for the previous month.

In the case of gas intended for consumption within Alberta, the amount estimated as cost of service under Sections 11(2)(a)(ii) and 15(3)(b)(i) of the Act were made under the Commission's general directive for the Alberta cost of service.

All determinations are on gross or higher heating value on a dry basis at 15°C and an absolute pressure of 101.325 kPa (kilopascal).

Yours very truly,

ALBERTA PETROLEUM MARKETING COMMISSION

D. L. Willis
Vice-Chairman

Attachment

INFORMATION BULLETIN
ALBERTA COST OF SERVICE DETERMINATION
PURSUANT TO THE NATURAL GAS PRICING AGREEMENT ACT
MONTH OF NOVEMBER, 1984

Section 15(3)(a)	Cents Per Gigajoule (GJ)*
Alberta and Southern Gas Co. Ltd.	
- Category A	33.211
- Category B	32.446
- Category E	25.330
Canadian Montana Pipe Line Company	81.826
Canadian Montana Pipe Line Company (Reagan)	3.000
Canadian Montana Gas Company Limited	68.041
Consolidated Natural Gas Limited	34.813
ICG Resources Ltd.	50.592
Many Islands Pipe Line (Canada) Limited	
- Purchased Gas	14.367
- North Sibbald (Agent)	6.778
- Saddle Lake	27.337
- Esther	17.866
Pan-Alberta Gas Ltd.	
- Basic	27.458
- Delivery Points - Joarcam	40.762
- Bay Tree	39.578
- Leige	29.065
- Windy	65.789
Progas Limited	7.025
Simplot Chemical Company, Ltd.	35.318
Societe quebecoise d'initiatives petrolieres (SOQUIP)	41.574
Sulpetro Limited	30.079
TransCanada PipeLines Limited	
- Average(1)	55.474
- Category A	56.570
- Category B1B2	56.236
- Category B1B3	59.487
- Category B1D2	52.002
- Category D1B2	34.471
- Category D1B3	36.888
- Category D1D2	30.287
- Category E	40.293
Westcoast Transmission Company	
- Husky Oil Ltd.	23.423
- Petrogas Processing Ltd. et al	24.115
Westcoast Transmission Company (Alberta) Limited	
- North	33.567
- Triassic E	3.474

Section 15(3)(b)	30.000

.../2

Notes

* Calculated on a gross and dry heating value basis at 101.325 kpa (kilopascal) and 15oC.

Notice

The price adjustment for gas is $0.24/GJ
The Alberta Border Price is $2.798 04/GJ

(1) For purposes of sales within Alberta

DETERMINATION 84-34 (TCP)
ALBERTA COST OF SERVICE
NATURAL GAS PRICING AGREEMENT ACT

APPLICATION

Pursuant to Determination 84-07 (TCP), TransCanada PipeLines Limited (TransCanada) requests Commission approval to add specified gas purchase contracts to Category D_1D_2 of TransCanada's Alberta cost of service.

The application dated December 3, 1984 and amended by letters of December 6, and December 13, 1984 is attached as Appendix "A". Determination 84-07 (TCP) is attached as Appendix "B" and Determination 84-30 (TCP) is attached, without appendices, as Appendix "C" for reference purposes.

DECISION

For the following contracts, the Commission approves entry to Category D_1D_2, as applied for, on condition that repayment in full of all Topgas and all Topgas Two take or pay advances is made on or before December 31, 1984.

Contract	Current Category	Requested Category
00984	B_1B_2	D_1D_2
00369	B_1B_2	D_1D_2
01162	B_1B_2	D_1D_2
01167	B_1B_2	D_1D_2

REASONS

Determination 84-30 (TCP) restricts further access to sub-categories D_1 and D_2 to those contracts for which application has been made prior to November 1, 1984, which are subsequently approved by the Commission and under which outstanding take or pay payments are repaid in full by December 31, 1984 or full recovery of these payments will occur pursuant to an accelerated recovery agreement entered into prior to November 1, 1984.

The Commission has approved entry of the contracts to interest free categories on the basis of the criteria previously established by Determinations 82-14 (TCP), 83-10 (TCP) and 83-06 (TCP). The criteria for entry to sub-category D_1 was receipt of a take or pay advance from Topgas and repayment of the advance in full after October 5, 1982. The criteria for entry to sub-category D_2 was receipt and repayment in full, after December 30, 1983, of take or pay advances from Topgas Two or waiving the advances to which the producer was entitled. However, the Commission, in Determination 83-06 (TCP), did not allow contracts in Category D upon repayment of the advances if such repayment was the result of gas deliveries in excess of the contract's prorata share of the market.

Although TransCanada did not meet the deadline for application, the Commission is satisfied that the producers had informed TransCanada, in writing prior to the November 1, 1984 date set in Determination 84-30 (TCP), of their intention to repay Topgas and Topgas Two take or pay advances on condition of their entry to Category D_1D_2.

DATED THIS 18th day of December, 1984, at Calgary, Alberta.

W. Murray Smith
Secretary

TransCanada PipeLines
TRANSCANADA PIPELINES TOWER, 530 EIGHTH AVENUE S.W.
P.O. BOX 500, STATION M, CALGARY, CANADA T2P 3V6
(403) 269 5611

December 3, 1984

Alberta Petroleum Marketing Commission
1900, Bow Valley Square IV
250 - 6th Avenue S. W.
Calgary, Alberta
T2P 3H7

Attention: W. A. McKain

Dear Sir:

Pursuant to Determination 84-07(TCP) TransCanada hereby requests the approval of the Commission to add to Category D_1D_2 of TransCanada's Alberta cost of service the gas purchase contracts specified in the Schedule "A" attached hereto. The said Schedules set forth the pertinent information relative to each of the said contracts.

In regard to Contract #00984, the letter requesting that an application be made, along with a cheque for payment of the total outstanding take or pay prepayments was received late on October 31, 1984.

In regard to Contracts #01162, 01167 and 00369, the letter requesting an application be made was received in our offices on October 31, 1984.

Yours very truly

E.W.H. Mallabone
Manager, Legal
EWHM:ed
Encls.

SCHEDULE "A"

CONTRACT NO.: 00984

TOTAL PREPAID OUTSTANDING: $ 1 268 429.92 GJ 867 175

CONTRACT INFORMATION

INITIAL DELIVERY: February 3, 1971

ALBERTA COST OF SERVICE: B_1B_2

PARTICIPANT TOPGAS:	Yes	$ 1 223 951.96	GJ 845 446
PARTICIPANT TOPGAS TWO:	Yes	$ 44 477.96	GJ 21 729

ANNUAL TAKES:	Take Level	Production	
1981/82	57.6 %	44 999.1 10^3m^3	
1982/83	44.4 %	43 429.1 10^3m^3	) Total Uni) Productic
1983/84	51.4 %	45 842.5 10^3m^3	) ~~(Projected)~~
		BP owns 27.840 750% of the Unit	

TARGET RATE OF TAKE FOR ALLOCABLE CONTRACTS 52/0 %

REPAYMENT OF PREPAID:

Seller has repaid the total outstanding take or pay payment upon the condition that the contract be eligible for inclusion to Category D_1D_2 Alberta cost of service.

SCHEDULE "A"

CONTRACT NO.: 00369

TOTAL PREPAID OUTSTANDING: $ 965 391.69 GJ 664 689

CONTRACT INFORMATION

INITIAL DELIVERY:

ALBERTA COST OF SERVICE: B_1B_2

PARTICIPANT TOPGAS:	Yes	$872 204.75	GJ 619 164	
PARTICIPANT TOPGAS TWO:	Yes	93 186.94	GJ 45 525	
ANNUAL TAKES:		Take Level	Production	
1981/82		83.9 %	34 766.0	10^3m^3
1982/83		72.9 %	32 198.5	10^3m^3
1983/84		60.8 %	30 424	10^3m^3 (Projected)

TARGET RATE OF TAKE
FOR ALLOCABLE CONTRACTS 51.0 %

REPAYMENT OF PREPAID:

The Seller has indicated his intention of returning the outstanding prepayments under its contract on the condition that its contract would be eligible for inclusion in Category D_1D_2 of TransCanada's Alberta cost of service. This contract is involved in a Unit.

SCHEDULE "A"

CONTRACT NO.: 01162

TOTAL PREPAID OUTSTANDING: $ 468 173.51 GJ 317 992

CONTRACT INFORMATION

INITIAL DELIVERY:

ALBERTA COST OF SERVICE: B_1B_2

PARTICIPANT TOPGAS:	Yes	$445 661.26	GJ 306 994
PARTICIPANT TOPGAS TWO:	Yes	$ 22 512.25	GJ 10 998

ANNUAL TAKES:

	Take Level	Production
1981/82	62.9 %	58 984.4 10^3m^3
1982/83	45.8 %	45 755.5 10^3m^3
1983/84	51.0 %	49 271.0 10^3m^3 (Projected)

TARGET RATE OF TAKE FOR ALLOCABLE CONTRACTS 51.0 %

REPAYMENT OF PREPAID:

The Seller has indicated his intention of returning the outstanding prepayments under its contract on the condition that its contract would be eligible for inclusion in Category D_1D_2 of TransCanada's Alberta cost of service. This contract is involved in a Unit.

SCHEDULE "A"

CONTRACT NO.: 01167

TOTAL PREPAID OUTSTANDING: $ 625 643.07 GJ 411 673

CONTRACT INFORMATION

INITIAL DELIVERY:

ALBERTA COST OF SERVICE: B_1B_2

PARTICIPANT TOPGAS: Yes $522 403.60 GJ 361 237

PARTICIPANT TOPGAS TWO: Yes $103 239.47 GJ 50 436

ANNUAL TAKES:	Take Level	Production
1981/82	63.9 %	7 593.2 10^3m^3
1982/83	47.5 %	5 779.5 10^3m^3
1983/84	51.0 %	5 977.0 10^3m^3 (Projected)

TARGET RATE OF TAKE
FOR ALLOCABLE CONTRACTS 51.0 %

REPAYMENT OF PREPAID:

The Seller has indicated his intention of returning the outstanding prepayments under its contract on the condition that its contract would be eligible for inclusion in Category D_1D_2 of TransCanada's Alberta cost of service. This contract is involved in a Unit.

TransCanada PipeLines
TRANSCANADA PIPELINES TOWER 530 EIGHTH AVENUE S.W.
P.O. BOX 500 STATION M CALGARY CANADA T2P 3V6
(403) 269 5611

December 6, 1984

Alberta Petroleum Marketing
Commission
1900, Bow Valley Square IV
250 - 6th Avenue S. W.
Calgary, Alberta
T2P 3H7

Attention: W. A. McKain

Dear Sir:

Re: Application dated December 3, 1984.

In reply to your letter of December 4, 1984 attached are photostatic copies of:

a) letter dated October 24, 1984 from BP Canada to TransCanada PipeLines Limited.

This letter was misplaced and did not come to light until a letter of November 23, 1984 was received.

b) letter of November 23, 1984 from BP Canada to TransCanada PipeLines Limited is attached.

c) letter from PanCanadian Petroleum Limited dated 1984-10-31.

You will note this letter is stamped received by TransCanada Nov. 01, 1984 and that was the date that the letter landed on the desk of Mr. Luft but in fact the letter was hand delivered to our mail room on October 31, 1984.

Yours truly

E.W.H. Mallabone
Manager, Legal
EWHM:ed
Encls.

BP Canada

Oil and Gas Division
333 Fifth Avenue S.W.
Calgary, Alberta T2P 3B6
Telephone (403) 237-1234 Telex 038 24782

October 24, 1984

HAND DELIVER

GCE/502WL
/640

TransCanada Pipelines Limited
TransCanada Pipelines Tower
530 Eighth Avenue S.W.
CALGARY, Alberta
T2P 3V6

ATTENTION: Mr. C.K. Orr, Senior Vice President, Alberta Division

Dear Sir:

Gas Purchase Contract dated
1970-09-03 between BP Exploration
Canada Limited and TransCanada
Pipelines Limited
- Bellis Area
- Release of Non Unit Lands

Pursuant to the arrangements agreed to when BP Resources Canada Limited (BP), executed the Topgas II Agreement, BP does hereby request TransCanada Pipelines Limited, release the lands listed on the attached Schedule 'A' from the subject gas purchase contract in the Bellis Area.

These reserves will be utilized by BP to meet natural gas requirements at the Wolf Lake Oil Sands Project. Pursuant to TransCanada's favored nations letter dated 1982-12-09, BP will return all outstanding prepaid monies associated with the Bellis Gas Contract by 1984-11-25. Prepaid monies outstanding, as confirmed by TransCanada are $1,268,429.92 associated with a volume of 23,166.5 $10^3 m^3$.

Yours very truly,

BP RESOURCES CANADA LIMITED

A.F. Burchnall

A.F. Burchnall
Manager, Economics & Marketing

CH/tlp
Attachment

b.c.c.: Assistant Controller
Vice President, Drilling & Production
Manager, Accounting
Mike Olson

BP Canada

Oil and Gas Division
333 Fifth Avenue S.W.
Calgary, Alberta T2P 3B6
Telephone: (403) 237-1234   Telex: 038-24762

November 23, 1984

GCE/640
/502WL

HAND DELIVERED

TransCanada Pipelines
530 Eighth Avenue S.W.
Calgary, Alberta
T2P 3V6

ATTENTION: Mr. C.K. Orr
Senior Vice President, Alberta Division

Dear Sir:

RE: Gas Purchase Contract dated 1970-09-03 between BP Resources Canada Limited and TransCanada Pipelines.
- Bellis Area
- Return of Outstanding Prepaid Gas Monies.

Pursuant to a letter dated 1984-11-24, from BP Resources Canada Limited (BP), to TransCanada Pipelines, BP hereby returns the total outstanding prepaid gas monies for the subject Bellis gas purchase contract.

Enclosed is a cheque payable to TransCanada Pipelines Limited of $1,268,429.92 associated with a volume of 23,166.5 $10^3 m^3$. BP understands that the Bellis gas purchase contract shall now be included in Category D of TransCanada's Alberta cost of service.

Yours very truly,

BP RESOURCES CANADA LIMITED

A. F. Burchnall

A.F. Burchnall
Manager, Economics & Marketing

JG/tlp
Encl/

PanCanadian Petroleum Limited

P.O. Box 2850
Calgary, Alberta
T2P 2S5

1984-10-31

TransCanada Pipelines
TransCanada Pipelines Tower
P.O. Box 500, Station M
530 Eighth Avenue S.W.
Calgary, Alberta
T2P 3V6

Attention: Barry Luft

Dear Sir:

Re: Return of Prepaid Gas Payments

Subject to APMC decisions whether to include such producing dispatch groups under the D_1D_2 cost of service category, PCP would plan to return to Topgas the outstanding prepaid funds re the following dispatch points.

Point	
#1107-01	Rosebud Gas Unit
1075-07	Alderson - MR - Non Unit
1203-01	Verger Gas Unit

Yours truly,

C. F. Payne

C. F. Payne
Supervisor, Administration
Natural Gas Marketing

TRANSCANADA PIPELINES
RECEIVED
NOV 0 1 1984
VICE PRES
GAS SUPPLY

CFP/rj

TransCanada PipeLines
TRANSCANADA PIPELINES TOWER 530 EIGHTH AVENUE S.W.
P.O. BOX 500 STATION M CALGARY CANADA T2P 3V6
(403) 269 5611

December 13, 1984

Alberta Petroleum Marketing
Commission
1900, Bow Valley Square IV
250 - 6th Avenue S.W.
Calgary, Alberta
T2P 3H7

Attention: V. M. Thomas

Dear Sir:

Re: TransCanada PipeLines Limited Application
December 3, 1984 (Docket 84-36).

In reply to your letter of December 10, 1984 (copy attached) please be advised that for Contracts #00984, 01162, 01167 and 00369, repayment of outstanding take or pay advances is not the result of gas deliveries in excess of the particular contracts' prorata share of the market.

Yours truly,

E.W.H. Mallabone
Manager, Legal
EWHM:ed
Encl.

Alberta PETROLEUM MARKETING COMMISSION

1900, 250 Sixth Avenue S.W., Calgary, Alberta, Canada T2P 3H7 Telex 03-821978 (403) 297-5500

December 10, 1984

TransCanada Pipelines
TransCanada PipeLines Tower
530 Eighth Avenue S.W.
Calgary, Alberta
T2P 3V6

Attention: E. W. H. Mallabone
Manager, Legal

Dear Sir,

Would you please confirm that, for all the contracts included in your application dated December 3, 1984 (Docket 84-36), repayment of outstanding take or pay advances is not the result of gas deliveries in excess of the contracts' prorata share of the market.

Yours very truly,

ALBERTA PETROLEUM MARKETING COMMISSION

V. M. Thomas
General Manager,
Natural Gas

Appendix "B"

DETERMINATION 84-07 (TCP)
AMENDING DETERMINATION 83-10 (TCP)
ALBERTA COST OF SERVICE
NATURAL GAS PRICING AGREEMENT ACT

By Determination 83-10 (TCP) sub-categories D_1 and D_2 were established in the multi-tier Alberta cost of service of TransCanada PipeLines Limited (TransCanada) for gas purchase contracts under which repayment or waiver of take or pay payments occurred. Gas purchase contracts in these sub-categories attract no portion of Topgas or Topgas Two take or pay interest costs.

The Commission has advised TransCanada by letter dated March 7, 1984 to the effect that the Commission proposes to restrict access to sub-categories D_1 and D_2 to those gas purchase contracts included in these sub-categories at October 31, 1984. A submission from TransCanada on this proposal has been requested by April 15, 1984.

AMENDMENT

Determination 83-10 (TCP) is hereby amended to provide that for the period April 5, 1984 to October 31, 1984 inclusive no gas purchase contracts shall be added to sub-categories D_1 or D_2 without prior approval of the Commission.

DATED THIS 5th day of April, 1984 at Calgary, Alberta.

D. C. Hetland
Secretary and Solicitor

Alberta PETROLEUM MARKETING COMMISSION

DETERMINATION 84-30 (TCP)
ALBERTA COST OF SERVICE
NATURAL GAS PRICING AGREEMENT ACT

SUBMISSION

By letter dated March 7, 1984 the Commission requested that TransCanada PipeLines Limited ("TransCanada") make a submission in respect to the Commission's proposal to restrict access to Category D (now D_1, and D_2) to those contracts under which repayment of outstanding take or pay payments has been made by October 31, 1984. The Commission request is attached as Appendix "A".

The submission filed by TransCanada dated April 18, 1984 is attached as Appendix "B".

DECISION

Determinations 82-14 (TCP) and 83-10 (TCP) are amended to restrict access to Category D, now sub-categories D_1 and D_2, to those contracts for which application has been made prior to November 1, 1984 and which have been approved by the Commission, and under which:

(a) repayment of outstanding take or pay payments in full occurs by December 31, 1984, or

(b) full recovery of outstanding take or pay payments will occur pursuant to an accelerated recovery agreement entered into prior to November 1, 1984.

REASONS

The Commission's policy applicable to take or pay costs recovered through Alberta cost of service recognizes that flowing gas must bear the cost of financing payments for gas not taken. The basis for this position is extensively summarized in Determination 84-05 which stated in part:

> "The multi-tiered Alberta cost of service instituted by Determination 82-10 (TCP) and later replaced by Determination 82-14 (TCP) was considered by the Commission to be justified by the Topgas program which resulted in different financing arrangements with respect to take or pay payments made to participants and non-participants of the program. Topgas also resulted in assured recovery of take or pay payments made to the participants without increasing their share of market during the period of recovery. However, with the exception of Category D, the implementation of multi-tiers did not cause the Commission to deviate from the view that all gas being taken should bear the financing costs of payments made for gas not taken."

Further, in the same Determination the Commission stated:

> "Category D was established for Topgas participation for the limited purpose, perhaps misguided, of inducing a voluntary reduction in the amount of take or pay payments outstanding under Categories B and C contracts."

The Commission considers the $30 million refunded to date to be minimal when compared to the approximately $2.6 billion advanced under the Topgas and Topgas Two programs and is not convinced that expected benefit to producers overall has been achieved.

The Commission accepts in theory that the refund of take or pay payments should benefit producers through the reduction of carrying costs in the Alberta cost of service. TransCanada recognizes in its submission that one of the factors influencing a producer's decision to refund take or pay payments is the individual producer's cost/benefit considerations of take or pay outstanding under an individual contract relative to the level of deliveries under that contract. For this reason the Commission is concerned that refunds prompted when it is in the producer's individual economic interest to do so will usually be achieved at the expense of other producers. In the Commission's opinion there is little incentive for producers to voluntarily refund payments except in situations in which the repayment amount is proportionately small in relation to current and/or future production under that contract.

TransCanada also describes the methods by which a producer can increase deliverability leading to increased gas takes under its contract. Under increasing deliveries the producer becomes more likely to return prepayments in order to gain relief from an increased share of interest costs. A refund of prepayments and reclassification of the contract to Category D in such circumstances would work to the detriment of the producers remaining in the interest-bearing Topgas and Topgas Two categories.

Under market conditions precipitating past, current and possibly future take or pay payments any and all gas deliveries contribute, in some part, to the aggregate take or pay burden. The take or pay placed at the individual contract level however, is not necessarily proportional to gas delivery levels under that contract. The Commission considers it is inappropriate to continue with interest-free categories which allow a producer to avoid the aggregate take or pay burden especially when this can operate to the disadvantage of producers remaining in the interest-bearing categories.

In its submission, TransCanada contends that each dollar of take or pay refunded reduces TransCanada's risk of non-recovery of prepaid gas. Further, TransCanada maintains that interest-free categories serve as an inducement for producers with questionable reserves to negotiate accelerated recovery agreements with TransCanada. The Commission considers such risks to be of an operational nature and not appropriate for resolution through the maintenance of an interest-free category of cost of service.

DATED THIS 16th day of November, 1984 at Calgary, Alberta.

W. Murray Smith

W. Murray Smith
Secretary

Alberta PETROLEUM MARKETING COMMISSION

DETERMINATION 84-35 (A&S)
ALBERTA COST OF SERVICE
NATURAL GAS PRICING AGREEMENT ACT

SUBMISSION

By letter dated March 8, 1984, the Commission requested that Alberta and Southern Gas Co. Ltd. ("A&S") make a submission in respect of the proposed restriction of access to Category E to those contracts under which repayment of outstanding take or pay payments has been made by June 30, 1984. The Commission's request is attached as Appendix "A".

The submission filed by A&S, dated May 9, 1984, is attached as Appendix "B" and Determination 84-30 (TCP), without appendices, is attached as Appendix "C".

DECISION

Determinations 83-07 (A&S) and 84-24 (A&S) are amended to restrict access to Category E to those contracts under which repayment, in full, of outstanding take or pay payments occurred by June 30, 1984.

REASONS

The issue in this determination parallels that reviewed in Determination 84-30 (TCP). For the reasons as given in Determination 84-30 (TCP), the Commission restricts entry to Category E to those contracts under which repayment of outstanding take or pay has been made by June 30, 1984.

DATED THIS 19th day of December, 1984 at Calgary, Alberta.

W. Murray Smith

W. Murray Smith
Secretary

Alberta

PETROLEUM MARKETING COMMISSION

403/262-8808
Telex: 03-821978
1900, 250 - 6th Avenue S.W.
Calgary, Alberta, Canada
T2P 3H7

March 8, 1984

Alberta and Southern Gas Company Ltd.,
East Tower, Esso Plaza,
425 First Street S.W.,
Calgary, Alberta.
T2P 3L8

Attention: Mr. Thomas R. Benson
Manager, Law Department

Gentlemen:

In the 'Reasons' to Determination 83-07 (A&S), the Commission stated in part:

> "... Category E is established for the limited purpose of inducing a further voluntary reduction in the amount of take or pay payments outstanding."

In view of the minor success in accomplishing the above, the Commission proposes to issue an order on or about June 1, 1984 amending Determination 83-07 (A&S) to restrict access to Category E to those contracts under which repayment of outstanding take or pay payments has been made by June 30, 1984.

A submission by your company on this matter is required by April 15, 1984.

Yours very truly,

ALBERTA PETROLEUM MARKETING COMMISSION

D. C. Hetland
Secretary and Solicitor

Appendix "B"

ALBERTA AND SOUTHERN GAS CO. LTD.
24TH FLOOR EAST TOWER. ESSO PLAZA
425 - 1ST STREET S.W.
CALGARY, ALBERTA
T2P 3L8

HAND DELIVERED

May 9, 1984

Alberta Petroleum Marketing Commission
1900, 250 Sixth Avenue S.W.
CALGARY, Alberta
T2P 3H7

Attention: Mr. D.E. Hetland,
Secretary and Solicitor

Dear Sirs:

Re: Alberta Petroleum Marketing Commission Determination 83-07 (A&S) Alberta Petroleum Marketing Commission Proposal to restrict access to Alberta and Southern Gas Co Ltd.'s Category E Alberta Cost of Service

We acknowledge receipt of your letter dated March 8, 1984 advising that the Alberta Petroleum Marketing Commission (the "Commission") proposes to restrict access to the Category E Alberta cost of service of Alberta and Southern Gas Co. Ltd. ("Alberta and Southern") to those contracts under which repayment of outstanding take-or-pay payments has been made by June 30, 1984.

Please be advised that Alberta and Southern is of the opinion that the reasoning underlying the application to establish the Category E Alberta cost of service was sound in that a producer who repays monies previously paid to him for gas not requested and taken and who waives the obligation imposed on Alberta and Southern to make current take-or-pay payments to him should not be required to pay a share of the carrying costs associated with the financing arrangements to pay for take-or-pay liabilities with other producers. While it is true that there has been limited success to date in inducing producers to enter the Category E Alberta cost of service, Alberta and Southern sees no reason for restricting access to the Category E cost of service at this time.

Yours truly,

ALBERTA AND SOUTHERN GAS CO. LTD.

Thomas R. Benson

Thomas R. Benson
Manager, Law Department

TRB:em

Alberta PETROLEUM MARKETING COMMISSION

DETERMINATION 84-30 (TCP)
ALBERTA COST OF SERVICE
NATURAL GAS PRICING AGREEMENT ACT

SUBMISSION

By letter dated March 7, 1984 the Commission requested that TransCanada PipeLines Limited ("TransCanada") make a submission in respect to the Commission's proposal to restrict access to Category D (now D_1, and D_2) to those contracts under which repayment of outstanding take or pay payments has been made by October 31, 1984. The Commission request is attached as Appendix "A".

The submission filed by TransCanada dated April 18, 1984 is attached as Appendix "B".

DECISION

Determinations 82-14 (TCP) and 83-10 (TCP) are amended to restrict access to Category D, now sub-categories D_1 and D_2, to those contracts for which application has been made prior to November 1, 1984 and which have been approved by the Commission, and under which:

(a) repayment of outstanding take or pay payments in full occurs by December 31, 1984, or

(b) full recovery of outstanding take or pay payments will occur pursuant to an accelerated recovery agreement entered into prior to November 1, 1984.

REASONS

The Commission's policy applicable to take or pay costs recovered through Alberta cost of service recognizes that flowing gas must bear the cost of financing payments for gas not taken. The basis for this position is extensively summarized in Determination 84-05 which stated in part:

> "The multi-tiered Alberta cost of service instituted by Determination 82-10 (TCP) and later replaced by Determination 82-14 (TCP) was considered by the Commission to be justified by the Topgas program which resulted in different financing arrangements with respect to take or pay payments made to participants and non-participants of the program. Topgas also resulted in assured recovery of take or pay payments made to the participants without increasing their share of market during the period of recovery. However, with the exception of Category D, the implementation of multi-tiers did not cause the Commission to deviate from the view that all gas being taken should bear the financing costs of payments made for gas not taken."

Further, in the same Determination the Commission stated:

> "Category D was established for Topgas participation for the limited purpose, perhaps misguided, of inducing a voluntary reduction in the amount of take or pay payments outstanding under Categories B and C contracts."

The Commission considers the $30 million refunded to date to be minimal when compared to the approximately $2.6 billion advanced under the Topgas and Topgas Two programs and is not convinced that expected benefit to producers overall has been achieved.

The Commission accepts in theory that the refund of take or pay payments should benefit producers through the reduction of carrying costs in the Alberta cost of service. TransCanada recognizes in its submission that one of the factors influencing a producer's decision to refund take or pay payments is the individual producer's cost/benefit considerations of take or pay outstanding under an individual contract relative to the level of deliveries under that contract. For this reason the Commission is concerned that refunds prompted when it is in the producer's individual economic interest to do so will usually be achieved at the expense of other producers. In the Commission's opinion there is little incentive for producers to voluntarily refund payments except in situations in which the repayment amount is proportionately small in relation to current and/or future production under that contract.

TransCanada also describes the methods by which a producer can increase deliverability leading to increased gas takes under its contract. Under increasing deliveries the producer becomes more likely to return prepayments in order to gain relief from an increased share of interest costs. A refund of prepayments and reclassification of the contract to Category D in such circumstances would work to the detriment of the producers remaining in the interest-bearing Topgas and Topgas Two categories.

Under market conditions precipitating past, current and possibly future take or pay payments any and all gas deliveries contribute, in some part, to the aggregate take or pay burden. The take or pay placed at the individual contract level however, is not necessarily proportional to gas delivery levels under that contract. The Commission considers it is inappropriate to continue with interest-free categories which allow a producer to avoid the aggregate take or pay burden especially when this can operate to the disadvantage of producers remaining in the interest-bearing categories.

In its submission, TransCanada contends that each dollar of take or pay refunded reduces TransCanada's risk of non-recovery of prepaid gas. Further, TransCanada maintains that interest-free categories serve as an inducement for producers with questionable reserves to negotiate accelerated recovery agreements with TransCanada. The Commission considers such risks to be of an operational nature and not appropriate for resolution through the maintenance of an interest-free category of cost of service.

DATED THIS 16th day of November, 1984 at Calgary, Alberta.

W. Murray Smith
Secretary